

**NEW ISSUE
BOOK ENTRY ONLY**

RATINGS (Insured Bonds):

**Fitch: AAA
Moody's: Aaa
S&P: AAA**

RATINGS (all other 1999 Bonds):

**Fitch: AA
Moody's: Aa3
S&P: AA -**

(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing statutes, judicial decisions, regulations and rulings, interest on the 1999 Bonds (as defined herein) is excludable for federal income tax purposes from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended. Such exclusion is conditioned on continuing compliance with the Tax Covenants (as defined herein). In the opinion of Bond Counsel, under existing statutes, judicial decisions, regulations and rulings, interest on the 1999 Bonds is exempt from income taxation in the State of Indiana. See Appendix D for the form of opinion of Bond Counsel. See "TAX MATTERS."

\$96,785,000

INDIANA STATE OFFICE BUILDING COMMISSION

**Facilities Revenue Bonds, Series 1999A
(Miami Correctional Facility - Phase I)**

Dated: June 15, 1999

Due: July 1, as shown on the inside cover page

The Facilities Revenue Bonds, Series 1999A (Miami Correctional Facility - Phase I) (the "1999 Bonds"), are being issued by the Indiana State Office Building Commission (the "Commission") to (i) refund on a current basis the allocable portion of the Commission's Tax Exempt Commercial Paper Hoosier Notes, Series A (the "Hoosier Notes"), used to finance a portion of the acquisition, design, construction and equipping of Phase I of a medium security correctional facility located in Miami County, Indiana, further described herein ("Facility No. 3 - Phase I") and (ii) fund the remaining costs associated with the acquisition, design, construction and equipping of Facility No. 3 - Phase I. When Facility No. 3 - Phase I is available for use and occupancy (as described herein), it will be leased to the State of Indiana (the "State"), acting by and through its Department of Administration (the "Department of Administration"), pursuant to Use and Occupancy Agreement No. 3 (as defined herein) between the Commission and the Department of Administration.

The 1999 Bonds are being issued pursuant to a Trust Indenture between the Commission and Bank One Trust Company, NA (successor to NBD Bank N.A.), Indianapolis, Indiana, as trustee (the "Trustee"), originally dated November 1, 1991, as amended, restated and supplemented as of January 1, 1998, as heretofore amended and supplemented and as further supplemented by a Series 1999A Supplemental Trust Indenture, dated as of June 15, 1999 (collectively, the "Indenture").

Interest on the 1999 Bonds is payable on January 1 and July 1 of each year commencing January 1, 2000. The 1999 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the 1999 Bonds may be made in book-entry-only form in the denomination of \$5,000 or any integral multiple thereof, and purchasers of the 1999 Bonds will not receive physical delivery of certificates representing their interest in the 1999 Bonds. See "DESCRIPTION OF THE 1999 BONDS - General Description," and "— Book-Entry-Only System."

The 1999 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 3 - Phase I that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 3 - Phase I. Such income and revenues will be derived primarily from rental payments to be received by the Commission from the Department of Administration under the Use and Occupancy Agreement No. 3. **The 1999 Bonds do not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power.** See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The 1999 Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption, all as more fully described herein. See "DESCRIPTION OF THE 1999 BONDS - Redemption."

Payment of the principal of and interest on the Insured Bonds (as defined herein) when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Insured Bonds.



This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 1999 Bonds are being offered when, as and if issued by the Commission and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Ice Miller Donadio & Ryan, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Commission by the Attorney General of the State, counsel to the Commission and by Johnson Smith Pence Wright & Heath, LLP, Indianapolis, Indiana, Disclosure Counsel and for the Underwriters by Bingham Summers Welsh & Spilman, Indianapolis, Indiana, Underwriters' Counsel. It is expected that the 1999 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about July 28, 1999.

Goldman, Sachs & Co.

**Morgan Stanley Dean Witter
Morgan Stanley & Co. Incorporated**

**Banc One Capital Markets, Inc. City Securities Corporation Loop Capital Markets, LLC
Raymond James & Associates, Inc. Salomon Smith Barney Siebert Brandford Shank & Co. LLC**

June 24, 1999

\$96,785,000

**INDIANA STATE OFFICE BUILDING COMMISSION
Facilities Revenue Bonds, Series 1999A
(Miami Correctional Facility — Phase I)**

MATURITY SCHEDULE

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2000†	\$2,765,000	4.500%	3.550%	2001	\$ 400,000	4.125%	4.150%
2001†	2,710,000	4.750	4.150	2002	500,000	4.250	4.300
2002†	2,755,000	4.250	4.320	2004	1,640,000	4.500	4.550
2003	3,395,000	4.250	4.420	2005	1,300,000	4.500	4.670
2004	1,900,000	5.000	4.550	2006	845,000	4.500	4.770
2005	2,410,000	5.000	4.670	2007	1,385,000	4.750	4.870
2006	3,040,000	5.000	4.770	2008	805,000	4.750	4.970
2007	2,690,000	5.000	4.870	2009	720,000	5.000	5.050
2008	3,475,000	5.000	4.970	2010	900,000	5.000	5.130
2009	3,770,000	5.250	5.050	2011	1,455,000	5.000	5.200
2010	3,825,000	5.250	5.130	2012	250,000	5.125	5.270
2011	3,515,000	5.250	5.200	2015	550,000	5.250	5.410
2012	4,975,000	5.375	5.270*	2016	250,000	5.250	5.440
2013	5,505,000	5.375	5.320*				
2014	5,800,000	5.250	5.360				
2015	5,555,000	5.500	5.410*				
2016	6,190,000	5.500	5.440*				
2017	6,795,000	5.500	5.460*				
2018	7,170,000	5.250	5.470				
2019	7,545,000	5.250	5.480				

† Uninsured Bonds

* Priced to par call on July 1, 2011

INDIANA STATE OFFICE BUILDING COMMISSION

MEMBERS

GOVERNOR - FRANK O'BANNON, Chairman

LIEUTENANT GOVERNOR - JOSEPH E. KERNAN, Vice-Chairman

STATE BUDGET DIRECTOR - PEGGY BOEHM, Secretary

TREASURER OF STATE - TIM BERRY, Treasurer

AUDITOR OF STATE - CONNIE NASS, Auditor

COMMISSIONER, DEPARTMENT OF ADMINISTRATION - BETTY COCKRUM

ELEANOR F. BOOKWALTER

KENNETH L. DeLAP

KEITH G. HEDINGER

KIPPER TEW

ROBERT BATTEAST

MYRON H. FRASIER

BRAD CHAMBERS

Susan Williams
Executive Director

Joe Wiesinger
Chief Deputy Director

**INDIANA DEPARTMENT
OF ADMINISTRATION**

Commissioner
Betty Cockrum

**INDIANA DEPARTMENT
OF CORRECTION**

Commissioner
Edward L. Cohn

No dealer, broker, salesman or other person has been authorized by the Commission or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by either the Commission or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of any of the 1999 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the State, the Commission and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. The information, estimates and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 1999 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Commission or any person described herein subsequent to the date as of which such information is presented.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1999 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 1999 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Pursuant to continuing disclosure requirements promulgated by the Securities and Exchange Commission in Securities and Exchange Commission Rule 15c2-12, as amended, the Commission and the State of Indiana will enter into a Continuing Disclosure Undertaking Agreement with Bank One Trust Company, NA, as the counterparty. For a description of the Continuing Disclosure Undertaking Agreement, see "CONTINUING DISCLOSURE."

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\$96,785,000
INDIANA STATE OFFICE BUILDING COMMISSION
Facilities Revenue Bonds, Series 1999A
(Miami Correctional Facility - Phase I)

INTRODUCTION

The purpose of this Official Statement (including the cover page and appendices) is to provide information about the Indiana State Office Building Commission (the "Commission") and the offering of the Commission's Facilities Revenue Bonds, Series 1999A (Miami Correctional Facility - Phase I) (the "1999 Bonds"). The 1999 Bonds are being issued pursuant to (i) Indiana Code 4-13.5 (the "Act"), (ii) the Indenture (hereinafter defined) and (iii) a resolution adopted by the Commission on May 12, 1999. The Act empowers the Commission to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition, construction and equipping of a Facility, as defined in the Act ("Facility"), or for the purpose of refunding bonds or notes of the Commission. See "INDIANA STATE OFFICE BUILDING COMMISSION - Facilities Program."

Plan of Finance

The 1999 Bonds are being issued under a Trust Indenture between the Commission and Bank One Trust Company, NA (successor to NBD Bank N.A.), Indianapolis, Indiana, as trustee (the "Trustee"), originally dated November 1, 1991 as amended, supplemented, and restated as of January 1, 1998, as heretofore amended and supplemented and as further supplemented by a Series 1999A Supplemental Trust Indenture, dated as of June 15, 1999 (collectively, the "Indenture"). The Trustee will also serve as bond registrar (the "Bond Registrar") and paying agent (the "Paying Agent") for the 1999 Bonds (the Trustee, the Bond Registrar, the Paying Agent and any authorized depository under the Indenture, collectively, the "Fiduciaries").

The Commission has previously issued under the Indenture (i) its Correctional Facilities Program Revenue Bonds, Series 1995A, dated July 1, 1995, outstanding as of June 1, 1999, in the principal amount of \$53,630,000 (the "1995A Bonds") and (ii) its Facilities Revenue Refunding Bonds, Series 1998A, outstanding as of June 1, 1999, in the principal amount of \$93,020,000 (the 1998A Bonds along with the 1995A Bonds, hereinafter referred to as the "Facility No. 1 Bonds") for the purpose of financing and refinancing the costs of acquisition, design, construction and equipping of a maximum security correctional facility and a medium security correctional facility in Sullivan County, Indiana (collectively, "Facility No. 1"). The Facility No. 1 Bonds are secured exclusively by the payments to be made under Use and Occupancy Agreement No. 1 (hereinafter defined). See "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS".

The Commission has also previously issued under the Indenture and separately secured under Use and Occupancy Agreement No. 2 (hereinafter defined), its Correctional Facilities Program Revenue Bonds, Series 1995B, dated September 15, 1995, outstanding as of June 1, 1999, in the principal amount of \$47,975,000 (the "1995B Bonds" or "Facility No. 2 Bonds") for the purposes of financing the acquisition, design, construction, renovation and equipping of a women's correctional facility in Parke County, Indiana ("Facility No. 2"). The Facility No. 2 Bonds are secured exclusively by the payments to be made under Use and Occupancy Agreement No. 2 (hereinafter defined). See "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS". The 1995A Bonds, 1995B Bonds and 1998A Bonds are hereinafter collectively referred to as the Prior Bonds ("Prior Bonds").

The 1999 Bonds are being issued to (i) refund on a current basis the allocable portion of the Commission's Tax Exempt Commercial Paper Hoosier Notes, Series A (the "Hoosier Notes"), which were used to finance a portion of the acquisition, design, construction and equipping of Phase I of a medium security correctional facility located in Miami

County, Indiana ("Facility No. 3 - Phase I"), (ii) fund the remaining costs associated with the acquisition, design, construction and equipping of Facility No. 3 - Phase I, (iii) fund the amount necessary to pay interest on the Series 1999 Bonds until Facility No. 3 - Phase I is available for use and occupancy (hereinafter described) and (iv) pay the costs of issuance of the 1999 Bonds. See "PLAN OF FINANCE," and "SOURCES AND USES OF FUNDS".

Security and Sources of Payment for the 1999 Bonds

The 1999 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 3 (hereinafter defined) that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 3. Pursuant to the Use and Occupancy Agreement dated as of July 1, 1999 between the Commission and the Department of Administration (defined below) relating to Facility No. 3 ("Use and Occupancy Agreement No. 3"). Such income and revenues will be derived primarily from rental payments to be received by the Commission from the Department of Administration of the State of Indiana ("Department of Administration") under Use and Occupancy Agreement No. 3. **The 1999 Bonds do not constitute an indebtedness, liability or loan of the credit of the State of Indiana ("State") or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

The Act prohibits rentals from being paid under Use and Occupancy Agreement No. 3 until Facility No. 3 or a portion thereof (e.g. Facility No. 3 - Phase I) has been completed and such facility or portion thereof is available for use and occupancy by the Department of Administration. The Commission anticipates that Facility No. 3 - Phase I will be declared ready for use and occupancy on or about August 1, 1999 and at such time rentals under Use and Occupancy Agreement No. 3 will commence to be paid. See "INDIANA STATE OFFICE BUILDING COMMISSION--Facilities Program." The payment of rentals pursuant to Use and Occupancy Agreement No. 3 will be subject to and dependent upon funds having been appropriated by the General Assembly of the State and being available for such purpose. The Department of Administration is not obligated to pay for the use and occupancy of Facility No. 3, but the Department of Administration is required to vacate Facility No. 3 if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the services and facilities thereby afforded. If the Commission is not receiving rentals from the Department of Administration for Facility No. 3 pursuant to Use and Occupancy Agreement No. 3, sufficient funds may not be available to pay debt service on the 1999 Bonds on a full and timely basis. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Under the Indenture, one or more series of (i) additional bonds ("Additional Bonds") may be issued to finance or refinance a note issued to finance all or a portion of the Acquisition Costs (as defined in Appendix C) of an additional Facility or portion thereof ("Additional Facility" and together with Facility No. 1, Facility No. 2 and Facility No. 3, collectively referred to as, the "Facilities") or additions to such Facilities or (ii) refunding bonds ("Refunding Bonds") may be issued to refund all or a portion of any then outstanding Prior Bonds, 1999 Bonds or Additional Bonds. The 1999 Bonds, Prior Bonds, Additional Bonds and any Refunding Bonds issued pursuant to the Indenture are hereinafter collectively referred to as, the "Bonds". The 1999 Bonds and any Additional Bonds or Refunding Bonds related to Facility No. 3 are referred to as "Facility No. 3 Bonds." See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Additional Bonds" and " - Refunding Bonds" in Appendix B.

Payment of the principal of and interest on the Insured Bonds (as defined herein) when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation ("Ambac Assurance"). See "BOND INSURANCE." As shown on the Inside Cover Page and as further described in Appendix C, the 1999 Bonds maturing in 2000 and a portion of the 1999 Bonds maturing in 2001 and 2002 are not insured by Ambac Assurance. All other maturities (the balance of the 1999 Bonds maturing in 2001 and 2002 and all the 1999 Bonds maturing in 2003 and thereafter) are insured by Ambac Assurance and herein sometimes referred to as the "Insured Bonds."

The 1999 Bonds

Interest on the 1999 Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2000. The 1999 Bonds will be issued in fully registered form in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") in the denomination of \$5,000 or any integral multiple thereof. See "DESCRIPTION OF THE 1999 BONDS."

The 1999 Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption, all as more fully described herein. See "DESCRIPTION OF THE 1999 BONDS - Redemption."

The Official Statement

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Introduction is only a brief description and a full review should be made of this entire Official Statement (including the cover page and appendices), as well as the documents summarized or described in this Official Statement. The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. The Commission does not certify as to the accuracy or sufficiency of the disclosure practices of or content provided by Ambac Assurance and is not responsible for the information under the caption "BOND INSURANCE." The Commission does not certify as to the accuracy or sufficiency of the disclosure practices of or content provided by DTC and is not responsible for the information under the caption "DESCRIPTION OF THE 1999 BONDS - Book-Entry-Only System." Definitions of certain words and terms used in this Official Statement are set forth in Appendix C.

PLAN OF FINANCE

Hoosier Notes Current Refunding

The Commission issued its Tax Exempt Commercial Paper, Hoosier Notes, Series A, authorized in an amount not to exceed \$150,000,000 (the "Hoosier Notes"). Approximately \$86,300,000 of the proceeds of the Hoosier Notes ("Facility No. 3 Notes") were used to provide moneys to finance the Acquisition Costs of Facility No. 3 prior to the issuance of the 1999 Bonds. The Hoosier Notes are secured by a revolving credit facility established under a credit agreement by and between the Commission and NBD Bank, N.A., dated as of February 1, 1999.

As of the date of this Official Statement, the Commission has Hoosier Notes outstanding in the aggregate principal amount of \$135,305,000. Approximately \$85,700,000 of the proceeds of the 1999 Bonds will be used to refund on a current basis the Facility No. 3 Notes.

Facility No. 3 - Phase I Completion

The Commission anticipates that Facility No. 3 - Phase I will be substantially complete and ready for use and occupancy on or prior to August 1, 1999. However, the Commission anticipates that certain additional costs will be incurred with respect to Facility No. 3 - Phase I after the 1999 Bonds are issued. Therefore, approximately \$8,750,000 of the 1999 Bonds proceeds shall be applied to pay the costs to complete the construction and equipping of Facility No. 3 - Phase I after the 1999 Bonds are issued. Additionally, the 1999-2001 State budget authorizes the Commission to construct Phase II of Facility No. 3 ("Facility No. 3 - Phase II" along with Facility No. 3 - Phase I are hereinafter referred to as "Facility No. 3"). See "INDIANA STATE OFFICE BUILDING COMMISSION - Facilities Program".

SOURCES AND USES OF FUNDS

Set forth below is a summary of the estimated sources and uses of funds (exclusive of accrued interest) in connection with the issuance of the 1999 Bonds:

Sources:

Principal Amount of 1999 Bonds	\$96,785,000.00
Net Original Issue Discount	<u>(111,100.90)</u>
Total Sources	\$96,673,899.10

Uses:

Current Refunding of Facility No. 3 Notes	\$85,701,991.38
Acquisition Costs of Facility No. 3 - Phase I	8,752,978.96
Capitalized Interest	1,254,305.72
Costs of issuance of the 1999 Bonds ⁽¹⁾	<u>964,623.04</u>
Total Uses	\$96,673,899.10

⁽¹⁾ Including bond insurance, Underwriters' discount, estimated legal, accounting, printing, fiduciary and other expenses.

Accrued interest received upon delivery of the 1999 Bonds will be deposited with the Trustee in the Debt Service Fund for Facility No. 3 - Series 1999 Account under the Indenture and used to pay a portion of the interest on the 1999 Bonds due and payable on January 1, 2000.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Rental Payments and Other Net Revenues

The 1999 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 3 that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 3. The Facility No. 1 Bonds and Facility No. 2 Bonds are limited obligations of the Commission, payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of Facility No. 1 and Facility No. 2, respectively, that remain after payment or provision for payment of the expenses of operation, maintenance and repair of Facility No. 1 and Facility No. 2, respectively. Any Additional Bonds shall be payable solely from and secured exclusively by a pledge to the Trustee of the income and revenues of the particular Facility for which they were issued that remain after payment or provision for payment of the expenses of operation, maintenance and repair of such Facility. The Commission anticipates that one or more series of Additional Bonds will be issued on a parity basis with the 1999 Bonds, the proceeds of which will be used to pay Acquisition Costs of Facility No. 3 - Phase II. See "INDIANA STATE OFFICE BUILDING COMMISSION - Facilities Program". Upon the completion of Facility No. 3 - Phase II and it being declared ready for use and occupancy, the rentals for Facility No. 3 - Phase I and Facility No. 3 - Phase II shall be pledged to secure on a Pro Rata basis to the payment of the 1999 Bonds and such Additional Bonds. See "Summary of Certain Provisions of the Use and Occupancy Agreement" in Appendix B.

The Bonds will not constitute an indebtedness, liability or loan of the credit of the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the State or any political subdivision thereof. The Commission has no taxing power. The 1999 Bonds are payable solely as to both principal and interest from the net revenues of Facility No. 3.

In the Indenture, the Commission pledges, assigns and grants a security interest in the Trust Estate (as hereinafter defined) to the Trustee, in trust, in order to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds issued and outstanding under the Indenture, subject to the provisions of the Indenture requiring or permitting the application of the Trust Estate for the purposes and on the terms set forth in the Indenture. The Trust Estate is ratably pledged to each series of Bonds related to a particular Facility as follows: (i) the Net Revenues related to such Facility (as hereinafter defined), (ii) the proceeds of the sale of the Bonds related to such Facility, and (iii) all funds held under the Indenture for the benefit of a particular Facility (except the Revenue Fund, the Operation and Maintenance Fund and the Rebate Fund) including the investment if any, thereof. Amounts held in the General Fund (as defined in the Indenture) shall be held for the benefit of all series of Bonds, without regard to a particular Facility. The Indenture defines "Net Revenues" as all fees, charges, revenues or receipts derived by the Commission from the operation or leasing of a Facility or any portion thereof pursuant to the terms of the Use and Occupancy Agreement related to such Facility or otherwise, or from the sale, transfer or conveyance of a Facility or any portions thereof, and remaining after the payment or provision for payment of the expenses of operation, maintenance and repair of the Facility or any portion thereof required to be paid by the Commission. The Net Revenues to be used for the payment of debt service on the Bonds related to a particular Facility will be generated primarily from payments to be made by the Department of Administration for such Facility's Use and Occupancy Agreement.

In accordance with the Act, rentals will not be payable under any Use and Occupancy Agreement until the construction of the Facility or portion thereof subject thereto has been completed and such Facility or portion thereof is declared available for use and occupancy by the Department of Administration. The Commission anticipates that Facility No. 3 - Phase I will be declared ready for use and occupancy as of August 1, 1999 and will be leased by the Commission to the Department of Administration pursuant to Use and Occupancy Agreement No. 3.

In accordance with the Act, the payment of rentals pursuant to the Use and Occupancy Agreements will be subject to and dependent upon funds having been appropriated by the General Assembly and being available for such purpose. In accordance with the constitution and laws of the State, the General Assembly meets for a maximum period of sixty-one legislative days in every odd-numbered year and makes appropriations for the biennium commencing on July 1 of such year. The General Assembly also meets for a maximum period of thirty legislative days in intervening years and may make supplemental appropriations at such time. Although the General Assembly has authorized the construction of Facility No. 3 and has determined that a continuing need exists for the use and occupancy thereof, there is and can be under Indiana law no requirement for the General Assembly to make appropriations for Facility No. 3 for any fiscal year of the State (a "Fiscal Year").

The Indenture requires the Commission to use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Department of Administration moneys sufficient to enable the Commission to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in the preceding paragraph. The Indenture also requires that the Use and Occupancy Agreements provide that the Department of Administration must use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Commission to comply with its obligations to fix, establish and maintain the rents, rates, fees and charges described in the preceding paragraph. However, neither the Department of Administration nor any holder of any Bonds, including the 1999 Bonds, may legally compel the General Assembly to make all or any such appropriations. As of the date of this Official Statement, the State's General Assembly has budgeted appropriate amounts for the Department of Administration to make timely rental payments for Facility No. 3 - Phase I for the Initial Term (as hereinafter defined) as required by Use and Occupancy Agreement No. 3. (See Appendix A for more information concerning State indebtedness, State finances and the State budget and appropriations process.)

In accordance with the Act, the Department of Administration is not obligated to pay for the use and occupancy of any Facility, but the Department of Administration is required to vacate such Facility if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust or unreasonable considering the value of the services and facilities thereby afforded. The Act provides that in determining just and reasonable amounts to be paid for the use and occupancy of a Facility, the Commission shall impose and collect amounts that in the aggregate will be sufficient to: (i) pay the expenses of operation, maintenance and repair of the Facility, to the extent that the expenses are not otherwise provided; and (ii) leave a balance of revenues from the Facility to pay the principal and interest (including any reserve or sinking funds) on bonds or loans as they become due and retire them at or before maturity. However, there can be no assurance that the terms and conditions of Use and Occupancy Agreement No. 3 and the amount to be paid for the use and occupancy of Facility No. 3 will not be shown to be unjust or unreasonable.

The initial term of Use and Occupancy Agreement No. 3 will expire on July 1, 2001 ("Initial Term"). The Department of Administration is under no obligation to renew Use and Occupancy Agreement No. 3 after expiration of its initial term or any subsequent two-year term. Use and Occupancy Agreement No. 3 will terminate pursuant to the terms thereof and in accordance with the Act if, among other things: (a) the General Assembly does not appropriate sufficient funds to allow the Department of Administration to make rental payments thereunder or funds are not available to the Department of Administration to pay, when due, any sum required to be paid for use and occupancy thereunder or (b) the Department of Administration elects not to renew Use and Occupancy Agreement No. 3 at the end of its current term or any subsequent two-year term. See "SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS" in Appendix B. Under Use and Occupancy Agreement No. 3, in the event the Department of Administration is required to vacate Facility No. 3, or any portion thereof, because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to such Use and Occupancy Agreement at the end of any term, the Commission is required, under and subject to the Indenture, to use its best efforts to re-lease Facility No. 3 to other users. See "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE - Tax Covenants" in Appendix B. However, there can be no assurance that the Commission will be able to accomplish any such re-leasing, in whole or in part, or that, if accomplished, any such re-leasing will generate revenues sufficient to pay debt service on the Facility No. 3 Bonds when due.

The Indenture requires the Commission to fix, establish and maintain rents, rates, fees and charges which are reasonably expected to yield during each Fiscal Year in which a Facility or any portion thereof is available for use and occupancy an amount which, together with any amounts in the Construction Fund under the Indenture available therefor, is equal to at least (a) to the extent the Commission is obligated under the Use and Occupancy Agreements or otherwise, to operate, maintain or repair a Facility or any portions thereof at its expense, 100% of such expenses of operation, maintenance and repair during such Fiscal Year for a Facility or such portions thereof, (b) 100% of the expenses to be incurred by the Commission in managing and administering a Facility or such portion thereof and in complying with the covenants of the Indenture, (c) 100% of the Debt Service for the related Facility, for such Fiscal Year, (d) 100% of the required deposits, if any, to the Debt Service Reserve Fund under the Indenture during such Fiscal Year and, (e) to the extent authorized or permitted by the Act, one sixth of such amount as the Commission annually estimates, after considering the amount on deposit in the Replacement Reserve Fund under the Indenture on the first day of such Fiscal Year, is required to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for a Facility or such portion thereof to be incurred through the end of the sixth Fiscal Year commencing on the first day of such Fiscal Year. However, the Department of Administration has the right not to renew its obligations at the end of any term under any Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and its right to use and occupy the Facility subject thereto, without affecting its right to use and occupy any other Facility under any other Use and Occupancy Agreement. The Indenture provides that in such event, the Commission, in fixing rents, rates and fees and charges for a Facility which continues to be leased to the Department of Administration, must not establish rents, fees or charges for such Facility in excess of such Facility's allocable share of the amounts described in clauses (b), (c) or (d) above, determined by taking into account the amount of the Bond proceeds used to finance the Facility under the Indenture. Rents, fees and charges for such Facility related to the amounts described in clauses (a) and (e) will be based on the costs directly related to such Facility.

If for any of the foregoing reasons the Commission is not receiving rentals from the Department of Administration for Facility No. 3 under Use and Occupancy Agreement No. 3, sufficient funds may not be available to pay Debt Service on the Facility No. 3 Bonds in full, on a timely basis. See "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE - Defaults and Remedies" in Appendix B.

The Trust Estate does not include, and holders of the 1999 Bonds will not receive, any mortgage, lien or security interest in any portion of Facility No. 3 or any other Facility or real property financed under the Indenture.

Enforceability of Rights and Remedies

The enforceability of the rights and remedies of the Trustee, the holders of the Bonds, the Commission and the Department of Administration are limited. See "ENFORCEABILITY OF RIGHTS AND REMEDIES."

Additional Bonds and Refunding Bonds

Under the Indenture, one or more series of Additional Bonds may be issued to finance (or refinance notes issued to finance) additional Facilities or additions to existing Facilities. One or more series of Refunding Bonds may be issued at any time to refund all or a part of any outstanding series of Bonds issued under the Indenture. All Bonds issued for a particular Facility shall be secured on a parity basis by the Net Revenues of such Facility. Bonds issued for a separate Facility shall be separately secured by the Net Revenues of such Facility pursuant to a separate Use and Occupancy Agreement. See "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE - Additional Bonds" and see "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE - Refunding Bonds" both in Appendix B. The proceeds of any Additional Bonds will be applied as provided in a supplemental indenture adopted by the Commission pursuant to the Indenture (a "Supplemental Indenture") authorizing such Additional Bonds.

The 1999-2001 State budget includes authorization to the Commission to provide Facility No. 3 - Phase II. One or more series of Additional Bonds may be issued to finance (or refinance notes issued to finance) Facility No. 3 - Phase II under the Indenture. See "INDIANA STATE OFFICE BUILDING COMMISSION - Facilities Program".

BOND INSURANCE

Payment Pursuant to Municipal Bond Insurance Policy

Ambac Assurance has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Insured Bonds effective as of the date of issuance of the Insured Bonds. Under the terms of the Municipal Bond Insurance Policy, Ambac Assurance will pay to the United States Trust Company of New York in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Bonds, the insured

payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal or interest on an Insured Bond which has become Due for Payment and which is made to a holder of Insured Bonds by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Municipal Bond Insurance Policy. Specifically, the Municipal Bond Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium;
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of the Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of the holder of the Insured Bonds entitlement to interest payments and an appropriate assignment of such bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Insured Bond and will be fully subrogated to the surrendering bondholder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately **\$3,463,000,000** (unaudited) and statutory capital of approximately **\$1,970,000,000** (unaudited) as of **March 31, 1999**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds. **No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Municipal Bond Insurance Policy due to nonappropriation of funds by the State.**

Ambac Assurance makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual report on Form 10-K for the fiscal year ended December 31, 1998 and filed on March 30, 1999;
2. The Company's Current Report on Form 8-K dated March 24, 1999 and filed on March 24, 1999;
3. The Company's 1999 Proxy Statement dated March 30, 1999 and filed on March 30, 1999; and
4. The company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 1999 and filed on May 12, 1999.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

DESCRIPTION OF THE 1999 BONDS

General Description

The 1999 Bonds are issuable as fully registered bonds and are not registerable to bearer. The 1999 Bonds are issuable in the denomination of \$5,000 or integral multiples thereof. The 1999 Bonds will be dated as of June 15, 1999, and will be lettered and numbered consecutively from 99-1 upwards.

Interest on the 1999 Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2000 (each an "Interest Payment Date"). The 1999 Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Each 1999 Bond will bear interest from the Interest Payment Date next preceding the date on which it is authenticated unless it is (a) authenticated after the fifteenth day of the month prior to an Interest Payment Date (a "Record Date") and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) authenticated prior to the closing of business on the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from June 15, 1999; provided, however, that if, at the time of authentication of any 1999 Bond, interest is in default, such 1999 Bond will bear interest from the date to which interest has been paid.

For so long as the 1999 Bonds are registered in the name of DTC or its nominee, payments of principal of and redemption premium, if any, and interest on the 1999 Bonds will be paid by the Paying Agent only to DTC or its nominee. Neither the Commission, the Paying Agent nor any other Fiduciary will have any responsibility for a Beneficial Owner's receipt from DTC or its nominee, or any from any DTC Participant or Indirect Participant, of any payments of principal of or redemption premium, if any, or interest on any 1999 Bonds. See "Book-Entry-Only System."

In the event the 1999 Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the 1999 Bonds will be paid by check of the Paying Agent mailed on or before the business day prior to each Interest Payment Date to the registered owners or registered assigns appearing on the registration books maintained by the Bond Registrar as of the close of business on the most recent Record Date; provided, however, that a registered owner of at least \$1,000,000 aggregate principal amount of 1999 Bonds may request to receive payment of interest on any Interest Payment Date by wire transfer, upon written instructions to the Trustee not less than five business days prior to the Record Date immediately preceding such Interest Payment Date, which instructions will remain in effect until revoked in writing by such owner. In the event the 1999 Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, the principal of and redemption premium, if any, on the 1999 Bonds will be payable at the corporate trust operations office of the Paying Agent, in Columbus, Ohio.

Redemption

Optional Redemption. The 1999 Bonds maturing on or after July 1, 2010 are subject to optional redemption in the principal amount and maturity or maturities selected by the Commission, and within any single maturity by lot in such manner as may be designated by the Trustee, in whole or in part at any time on or after July 1, 2009, at redemption prices (expressed as percentages of the principal amount of the 1999 Bonds to be redeemed) set forth in the table below, plus accrued interest to the redemption date:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Price</u>
July 1, 2009 through June 30, 2010	101.0%
July 1, 2010 through June 30, 2011	100.5%
July 1, 2011 and thereafter	100.0%

Extraordinary Redemption. The 1999 Bonds are, at the option of the Commission, subject to extraordinary redemption prior to their stated maturities, at any time upon notice given within the time, in the manner and with the effect provided by the Indenture, upon the occurrence of any of the following events: (a) Facility No. 3 is totally or substantially destroyed and the amount of insurance money received on account thereof by the Trustee is sufficient to pay all of the principal of and accrued interest on such Bonds outstanding allocable to Facility No. 3, (b) there is a total or substantial failure of title with respect to Facility No. 3, or (c) there is a taking by condemnation or eminent domain of Facility No. 3; provided, that all Bonds outstanding allocable to Facility No. 3 (and only such Bonds) must be

redeemed pursuant to this provision. In the event Facility No. 3 is damaged or destroyed, Facility No. 3 may, under certain circumstances, be repaired, replaced or reconstructed. See "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE - Insurance, Completion of Performance" in Appendix B.

In the event of such an extraordinary redemption, the redemption price of 1999 Bonds will be 100% of the principal amount of the 1999 Bonds being redeemed plus accrued interest to the redemption date but without any premium.

Selection of Bonds: Partial Redemption. If fewer than all of the 1999 Bonds within a single maturity are called for redemption prior to maturity, the particular 1999 Bonds or portions thereof to be redeemed will be selected by the Trustee in such manner as the Trustee, in its discretion, may deem to be fair and appropriate. For any 1999 Bond called for prior redemption in a denomination of more than \$5,000, the portion of such Bond to be redeemed will be in a principal amount equal to \$5,000 or a multiple thereof. In selecting portions of 1999 Bonds for redemption, the Trustee will treat each 1999 Bond as representing that number of Bonds of such minimum denomination, which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. In the event that any portion of a 1999 Bond is redeemed, the owner of such 1999 Bond, upon surrender of such 1999 Bond and without charge, will receive a 1999 Bond or 1999 Bonds of like maturity for the unredeemed balance of the principal amount of such 1999 Bond.

For so long as the 1999 Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only 1999 Bonds or portions thereof registered in the name of DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Trustee nor any other Fiduciary will have any responsibility for selecting for redemption any Beneficial Owners' interests in the 1999 Bonds. See "Book-Entry-Only System."

Notice of Redemption. In the event that any 1999 Bonds are called for redemption, the Trustee will give notice not less than 30 and not more than 60 days prior to the date fixed for any such redemption to the owners of the 1999 Bonds or portions thereof to be redeemed by sending a copy of the redemption notice required by the Indenture, by first class mail, to such owners at their last address appearing on the registration books maintained by the Bond Registrar as of the close of business on the last business day of the month prior to the month during which such notice is mailed. Any defect in the giving of any notice will not affect the validity of the redemption proceedings for those 1999 Bonds for which notice was properly given.

For so long as the 1999 Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of 1999 Bonds only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Trustee nor any other Fiduciary will have any responsibility for any Beneficial Owners' receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any notices of redemption. See "Book-Entry-Only System."

Redemption Payments. On or prior to the date fixed for redemption of any 1999 Bonds, there must be on deposit with the Paying Agent sufficient funds to pay the redemption price of the 1999 Bonds or portions thereof called. After the redemption date, if proper notice of redemption by mailing has been given and sufficient funds have been deposited with the Paying Agent, interest will cease to accrue on the 1999 Bonds or portions thereof that have been called.

For so long as the 1999 Bonds are registered in the name of DTC or its nominee, redemption payments on the 1999 Bonds will be paid by the Paying Agent only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Paying Agent nor any other Fiduciary will have any responsibility for any Beneficial Owners' receipt from DTC or its nominee, or from any DTC Participant or Indirect Participant, of any redemption payments on any 1999 Bonds. See "Book-Entry-Only System."

Transfer and Exchange

The 1999 Bonds may be transferred or exchanged by any Bondholder or any Bondholder's duly authorized attorney at the corporate trust operations office of the Bond Registrar in Columbus, Ohio, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax, fee or other governmental charge for any such transfer or exchange that may be imposed upon the Commission or the Bond Registrar. The Bond Registrar will not be required (a) to transfer or exchange any 1999 Bonds during the period of fifteen days prior to any selection of such Bonds to be redeemed until after the mailing of a notice of redemption, or (b) to transfer or exchange any 1999 Bonds called for redemption.

For so long as the 1999 Bonds are registered in the name of DTC or its nominee, the Bond Registrar will transfer and exchange 1999 Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Commission, the Bond Registrar nor any other Fiduciary will have any responsibility for transferring or exchanging any Beneficial Owners' interests in the 1999 Bonds. See "Book-Entry-Only System."

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 1999 Bonds. The 1999 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 1999 Bond certificate will be issued for each maturity of the 1999 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. The 1999 Bonds will initially be available for purchase only in book-entry only form in authorized denominations.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 1999 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 1999 Bonds on DTC's records. The ownership interest of each actual purchaser of each 1999 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1999 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 1999 Bonds, except in the event that use of the book-entry system for the 1999 Bonds is discontinued.

To facilitate subsequent transfers, all 1999 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1999 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1999 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 1999

Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

As long as the Book-Entry Only System is used for the 1999 Bonds, redemption and tender notices and any other notices to Bondholders shall be sent to Cede & Co. If less than all of the 1999 Bonds are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such 1999 Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 1999 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission, as issuer, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 1999 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the 1999 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, any other Fiduciary or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Commission or the Paying Agent or any other Fiduciary, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 1999 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 1999 Bond certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 1999 Bond certificates will be printed and delivered.

DTC has informed its Participants and other members of the financial community that it has developed and is implementing a program so that its computer applications systems and the like for processing data, as related to payment of distributions to security holders, book-entry deliveries and settlement of trades within DTC continue to function appropriately. See "YEAR 2000 READINESS DISCLOSURE".

The information concerning DTC and DTC's book-entry system has been obtained from DTC, and neither the Commission, the Trustee, the Financial Advisor, the Underwriters nor the Trustee take any responsibility for the accuracy thereof.

Revision of Book-Entry-Only System

In the event that either (1) the Commission receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the 1999 Bonds or (2) the Commission elects to discontinue its use of DTC as a clearing agency for the 1999 Bonds, then the Commission and the Trustee or other Fiduciary will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the 1999 Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the 1999 Bonds and to transfer the ownership of each of the 1999 Bonds to such person or persons, including any other clearing agency,

as the holder of such 1999 Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the 1999 Bonds, will be paid by the Commission.

INDIANA STATE OFFICE BUILDING COMMISSION

General

The Indiana State Office Building Commission is a public body corporate and politic. Although it is separate from the State, the exercise by the Commission of its powers constitutes an essential governmental function. Pursuant to the Act, the Commission may issue bonds, but any bonds issued by the Commission are corporate obligations only of the Commission and are payable solely from and secured exclusively by the pledge of the income and revenues of the Facility financed by such bonds that remain after payment or provision for payment of the expenses of operation, maintenance and repair of such Facility, to the extent that expenses of operation, maintenance and repair are not otherwise provided. The Commission has no taxing power, and any indebtedness incurred by the Commission does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. (See Appendix A for further information about State indebtedness.)

Powers Under the Act

Under the Act, the Commission may, among other things: (a) acquire, own, manage, operate, hold, clear, improve, construct facilities on, sell, assign, exchange, transfer, convey, lease, mortgage or otherwise dispose of or encumber real property, or interests therein or facilities thereon, where such use is necessary or appropriate to the purposes of the Commission; and (b) borrow funds as set forth in the Act and issue revenue bonds of the Commission, payable solely from revenues, as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, or from both, for the purpose of carrying out its purposes under the Act, including paying all or any part of the cost of acquisition or construction of any one or more facilities, or for the purpose of refunding any other bonds or loan contracts of the Commission.

Facilities Program

General. The Commission is empowered to borrow funds and issue revenue bonds, payable solely from revenues as set forth in the Act, or from the proceeds of bonds issued under the Act and earnings thereon, to acquire, construct and equip Facilities. The Act defines "Facilities" to include all or any part of one or more buildings, structures or improvements or parking areas, owned or leased by the Commission or the State for the purpose of: (i) housing the personnel or activities of state agencies or branches of state government (ii) providing transportation or parking for state employees or persons having business with state government; or (iii) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons by the State's Department of Correction.

State Office Facilities. The Commission has completed a working, multi-project site acquisition and coordination, construction and renovation program adjacent to the State House, in Indianapolis, the State capitol, known as the Indiana Government Center Master Plan, relating to certain state office buildings and parking facilities. The Commission has issued and may continue to issue debt obligations to provide funds for financing or refinancing the implementation of the Indiana Government Center Master Plan. See Appendix A, "CERTAIN FINANCIAL AND ECONOMIC INFORMATION ON THE STATE OF INDIANA - STATE INDEBTEDNESS."

Correctional Facilities. In 1991, in response to the State's existing and projected prison capacity and population, the General Assembly amended the Act, in P.L. 240-1991(ss2), to authorize the Commission to finance the acquisition, design, construction and equipping of all or any part of one or more buildings, structures or improvements owned or leased by the Commission or the State for the custody, care, confinement or treatment of committed persons

by the Department of Correction. The Act permits the Commission to provide for facilities upon the General Assembly's statutory (a) finding that the State has a need for the renovation, refurbishing or alteration of existing facilities or construction of additional facilities and (b) authorization of the Commission to provide for such facilities. Pursuant to the Act, in P.L. 240-1991(ss2), the General Assembly found that the State needs and will have a continuing need for use and occupancy of (i) one additional maximum security correctional facility; (ii) one additional medium security correctional facility; and (iii) one additional correctional facility for women. Additionally, pursuant to the Act in P.L. 260-1997 the General Assembly authorized the construction of Facility 3 - Phase I. Furthermore, the General Assembly authorized the Commission, in the 1999-2001 State budget, to finance additional correctional facilities, including Facility No. 3 - Phase II, as part of the Correctional Facilities Program described below.

Pursuant to the legislative authorization described above, the Commission has undertaken a program for the acquisition, design, construction and equipping of correctional facilities (the "Correctional Facilities Program"). Facility No. 1 and Facility No. 2 were the first facilities financed by the Commission under the Correctional Facilities Program, and the Commission heretofore issued the Prior Bonds to finance and/or refinance the costs of Facility No. 1 and Facility No. 2. See Appendix A, "CERTAIN FINANCIAL AND ECONOMIC INFORMATION ON THE STATE OF INDIANA - STATE INDEBTEDNESS".

The Commission expects that Facility No. 1, Facility No. 2 and Facility No. 3 have been and will be designed and constructed in substantial compliance with current federal and State constitutional and statutory standards for custody and treatment of offenders. However, federal and State standards for custody and treatment of offenders, including standards for housing, medical care and other facilities and services, have changed in recent years and are expected to continue to change. While the Commission anticipates that Facility No. 1, Facility No. 2 and Facility No. 3 will be adaptable to such changes, there can be no assurance that Facility No. 1, Facility No. 2 or Facility No. 3 will be in compliance with future federal and State constitutional and statutory standards for custody and treatment of offenders, and there can be no assurance as to the effect, if any, of noncompliance upon the availability of Facility No. 1, Facility No. 2 or Facility No. 3 for use and occupancy by the Department of Administration.

Facility No. 1. Facility No. 1 is called the Wabash Valley Correctional Facility and consists of a maximum and a medium security correctional facility situated on approximately 200 acres near the town of Carlisle (Sullivan County), in southwestern Indiana. Carlisle is approximately 30 miles south of Terre Haute (Vigo County) and 20 miles north of Vincennes (Knox County). U.S. 41, a four-lane highway, is the western boundary of the site.

The maximum security facility accommodates adult male offenders in a multi-building complex. The complex contains two semi-autonomous compounds inside a security perimeter. In one compound, offenders are confined in several separate housing units containing a total of 352 cells. In the other compound, a "supermax" facility, offenders are confined in a single housing unit containing 288 cells. This portion of Facility No. 1 also includes administrative, medical, visitation, recreation, laundry, warehouse, maintenance, industries and kitchen facilities.

The medium security facility for adult male offenders is a multi-building complex adjacent to the maximum security facility. Offenders are confined within several separate housing units inside a security perimeter. This portion of Facility No. 1 includes visitation, education, recreation and industries facilities, and shares in the use of certain facilities constructed with the maximum security facility, including a common security perimeter and administrative, laundry, kitchen, maintenance and warehouse facilities. In addition, a minimum security facility, with approximately 120 beds, has been constructed outside the security perimeter.

Facility No. 1 was completed in phases, which phases were available for use and occupancy on June 1, 1993, May 1, 1995 and June 1, 1997.

Facility No. 2. Facility No. 2 is situated on approximately 54 acres near the town of Rockville (Parke County), in western Indiana. Rockville is approximately 25 miles north of Terre Haute (Vigo County).

Facility No. 2 is called the Rockville Correctional Facility and provides five medium security housing units for female adult offenders with a maximum capacity of 900 offenders. The complex includes the following buildings: Food Service, Segregation, Recreation, Maintenance, Warehouse, Laundry, Administration, Offender Services and a Gatehouse. Facility No. 2 was available for use and occupancy as of June 1, 1998.

Facility No. 3 - Phase I. Facility No. 3 - Phase I is referred to as the Miami Correctional Facility Phase I and consists of a medium security correctional facility situated on approximately 100 acres on the former Grissom Air Force Base in north-central Indiana. Facility No. 3 - Phase I is located almost ten miles south of the City of Peru (Miami County) along U.S. 31.

Facility No. 3 - Phase I will provide six housing units inside a security perimeter for male adult offenders which will accommodate 1,200 offenders. There will be a minimum-security housing unit, outside the security perimeter, housing 200 male offenders. Facility No. 3 - Phase I will also include the following buildings: Recreation, Offender Services, Administration, Food Service, Industries, Segregation, Utility, Warehouse and Maintenance.

The Commission anticipates that Phase I of Facility No. 3 will be available for use and occupancy as of August 1, 1999.

The approved 1999-2001 State budget includes authorization to the Commission to construct Phase II of Facility No. 3. Facility No. 3 - Phase II is anticipated to provide eight housing units inside the security perimeter constructed for Facility No. 3 - Phase I. These housing units will house 1,600 medium security adult male offenders in eight cellblocks. The Commission also anticipates that an offender services building and an industries building will provide the bulk of the services offered to the offenders occupying these facilities (i.e. medical/counseling needs, programming such as education and substance abuse, and industrial type job training). Recreational opportunities will also be afforded to the offenders occupying these facilities with the construction of a recreation building.

Organization and Membership of the Commission

The Commission consists of the following members: the Governor, who serves as chairman; the Lieutenant Governor, who serves as vice chairman; the State Budget Director, who serves as secretary; the State Treasurer, who serves as treasurer; the Commissioner of the Department of Administration; the State Auditor; and seven persons appointed by the Governor, no more than four of whom may be of the same political party. Of those seven members appointed by the Governor, (a) one must be either an architect or an engineer registered in the State; (b) one must be a general mechanical or electrical contractor with not less than ten years of experience in nonresidential types of construction; (c) one must be a certified public accountant with not less than five years of experience in public building bond financing; and (d) one must be a person with experience and knowledge in the field of architectural history or the preservation of historical buildings.

The terms of the current Governor and Lieutenant Governor will each expire in January, 2001, while the terms of the current State Treasurer and the current State Auditor will expire on February 10, 2003, and December 1, 2002, respectively. The seven members appointed by the Governor are each appointed for terms of four years, during which they may not hold any other public office. The terms of all current appointed members of the Commission will expire on July 1, 2001, but the Governor may reappoint any or all of them to additional terms.

Seven members constitute a quorum. The affirmative votes of at least seven of the members, however, are necessary for any action to be taken by the Commission.

The Commission may employ an executive director (the "Executive Director") as the chief administrative officer of the Commission, charged with the general supervision of the Commission's work, subject to policies adopted by the Commission. Susan Williams is the Executive Director of the Commission. Joe Wiesinger is Chief Deputy Director.

Members

The following persons, including those persons with the particular types of experience or governmental positions required by the Act, are the present members of the Commission.

<u>Name</u>	<u>Position</u>	<u>Occupation</u>
Frank O'Bannon	Chairman	Governor
Joseph E. Kernan	Vice Chairman	Lieutenant Governor
Peggy Boehm	Secretary	State Budget Director
Tim Berry	Treasurer	State Treasurer
Connie Nass	Member	State Auditor
Betty Cockrum	Member	Commissioner, Department of Administration
Eleanor F. Bookwalter	Member*	Architectural Historian, Carmel, Indiana
Kenneth L. DeLap	Member*	President and Chairman of the Board, SIGECO Inc., Columbus, Indiana
Keith G. Hedinger	Member*	Owner, Hedinger Beverage Distributing, Jasper, Indiana
Kipper Tew	Member*	Government Relations, Public Service Indiana, Indianapolis, Indiana
Robert Batteast	Member*	President, Batteast Construction, South Bend, Indiana
Myron H. Frasier	Member*	Owner, Frasier's Gourmet Foods, Inc., Fishers, Indiana Retired Managing Partner, H.J. Umbaugh & Associates, Certified Public Accounts, LLP
Brad Chambers	Member*	President, Buckingham Companies

*Appointed by the Governor

Summary of Outstanding Facilities Debt

Indiana Government Center. The Commission has issued several series of revenue bonds under various separately secured indentures to finance the implementation of the Indiana Government Center Master Plan (the "Capitol Complex Revenue Bonds"). See Appendix A, "ECONOMIC AND FINANCIAL STATEMENT FOR THE STATE OF INDIANA - State Indebtedness."

No portion of the revenues and funds pledged for payment of any of the Capitol Complex Revenue Bonds will be available for payment of the principal of or redemption premium, if any, or interest on the 1999 Bonds or any other Bonds.

Correctional Facilities. The following table summarizes the debt service requirements of the Bonds issued and outstanding under the Indenture including the 1999 Bonds. The Facility No. 1 Bonds and the Facility No. 2 Bonds are separately secured by the net revenues of Facility No. 1 and Facility No. 2 were issued pursuant to the respective Use and Occupancy Agreements. The 1999 Bonds are being issued to acquire and construct Facility No. 3 - Phase I and will be separately secured by the Net Revenues of Facility No. 3, pursuant to Use and Occupancy Agreement No. 3.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and Appendix A, "ECONOMIC AND FINANCIAL STATEMENT FOR THE STATE OF INDIANA - State Indebtedness".

	FACILITY NO. 1 BONDS		FACILITY NO. 2 BONDS	FACILITY NO. 3 BONDS
	<u>1998A Bonds</u>	<u>1995A Bonds</u>	<u>1995B Bonds</u>	<u>1999 Bonds</u>
Amount Outstanding Upon Delivery of 1999 Bonds	\$93,020,000	\$53,220,000	\$46,750,000	\$96,785,000
Interest Rates	3.90% - 5.50%	4.35% - 5.50%	4.25% - 6.25%	4.125% - 5.50%
Maturities	7/1/2001 - 7/1/2016	7/1/1999 - 7/1/2020	7/1/1999 - 7/1/2020	7/1/2000 - 7/1/2019

The aggregate principal amount of all outstanding Facility No. 1 Bonds, Facility No. 2 Bonds and Facility No. 3 Bonds, as of the date of delivery of the 1999 Bonds, will be \$289,775,000. The maximum annual aggregate amount of principal and interest due on all outstanding Facility No. 1 Bonds, payable from rental payments received during any Fiscal Year for the use and occupancy of Facility No. 1 is \$12,005,900. The maximum annual aggregate amount of principal and interest due on all outstanding Facility No. 2 Bonds, payable from rental payments received during any Fiscal Year for the use and occupancy of Facility No. 2 is \$3,892,175. The maximum annual aggregate amount of principal and interest due on all outstanding Facility No. 3 Bonds, payable from rental payments received during any Fiscal Year for use and occupancy of Facility No. 3 is \$7,943,862.50.

Hoosier Notes. The Commission issued its Tax Exempt Commercial Paper, Hoosier Notes, Series A, authorized in an amount not to exceed \$150,000,000 (the "Hoosier Notes"). Approximately \$86,300,000 of the proceeds of the Hoosier Notes ("Facility No. 3 Notes") were used to provide moneys to finance the Acquisition Costs of Facility No. 3 prior to the issuance of the 1999 Bonds. The Hoosier Notes are secured by a revolving credit facility established under a credit agreement by and between the Commission and NBD Bank, N.A., dated as of February 1, 1999 (the "Credit Agreement"). As of the date of this Official Statement, the Commission has Hoosier Notes outstanding in the aggregate principal amount of \$135,300,000. Approximately, \$85,700,000 of 1999 Bond proceeds will be used to refund on a current basis the Facility No. 3 Notes.

In the future, the Commission anticipates the continuing use of this tax-exempt commercial paper program as an interim financing mechanism to provide funds to finance all or a portion of certain Facilities prior to the issuance of bonds for such Facilities. The Commission's obligations relating to any tax-exempt commercial paper program will be separately secured from the 1999 Bonds.

If authorized by the General Assembly, the Commission may issue bonds or other debt obligations to finance additional Facilities as part of the Indiana Government Center Master Plan, the Correctional Facilities Program or for other authorized Facilities or purposes. Such bonds or other debt obligations issued to finance any authorized Facilities may be issued either under the Indenture or under one or more separate indentures. Any series of Bonds issued under the Indenture for a particular Facility may be issued on a parity basis. Bonds issued under the Indenture for separate Facilities will be separately secured pursuant to a separate Use and Occupancy Agreement for such Facility. The type, amount and timing of the issuance of any additional bonds or other debt obligations are subject to a number of conditions that cannot be predicted at the present time, including, but not limited to, the evolutionary nature of the Indiana Government Center Master Plan and the Correctional Facilities Program, the scheduled completion of property

acquisition, architectural and engineering work, the level of investment rates, conditions in the credit markets, costs of construction, and the financial condition of the State.

CORRECTIONAL FACILITIES PROGRAM

The Department of Correction is organized under Indiana Code 11-8-2 as an agency of the State. The Commissioner of the Department of Correction is charged with responsibility for administering and supervising the Department of Correction, including all State owned or operated correctional facilities.

The Department of Correction manages correctional programs for nearly 21,000 adult and juvenile offenders in 32 correctional facilities, as well as nearly 5,300 adult and juvenile offenders under parole supervision throughout the State.

The correctional facilities range in size and programs from relatively small (fewer than 100 offenders) minimum security and substance abuse treatment units to relatively large (more than 2,500 offenders) medium and maximum security prisons.

By law, the Department of Correction provides academic and vocational education and employment opportunities to offenders as well as medical care, recreational and cultural programs.

The Act provides that the Department of Correction is responsible for allocation of space in correctional facilities financed by the Commission. The Commission anticipates that, for so long as the Department of Administration is using and occupying Facility No. 3 under the Use and Occupancy Agreement No. 3, the Department of Correction will operate Facility No. 3 for the State.

Offender Population

In the past decade, the adult male offender population has nearly doubled, increasing from 10,942 on January 1, 1989 to 18,209 on May 1, 1999, according to Department of Correction reports. The Department of Correction attributes this growth in offender population to a number of factors. These factors include continued substance abuse, saturation of community correction programs, more effective law enforcement, and an increase in the Indiana male population of ages 18 to 35. While future offender populations cannot be predicted from past offender populations, the Department of Correction currently projects that the adult male offender population will continue to increase.

The Correctional Facilities Program, including Facility No. 3 is being undertaken by the State in response to the State's existing and projected offender populations. At present, offender populations in the State's correctional facilities exceed capacity by 34%. In addition, more than 1500 offenders are being held temporarily in county jails and over 700 offenders are being held temporarily in contract beds. Even with the acquisition and construction of Facility No. 3, the Department of Correction expects that offender populations will continue to exceed capacity.

DEPARTMENT OF ADMINISTRATION

When Facility No. 3 - Phase I is declared ready for use and occupancy, the Department of Administration will lease Facility No. 3 from the Commission pursuant to Use and Occupancy Agreement No. 3. See "SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS" in Appendix B. Under the Act, the Department of Administration has the power to negotiate and execute a use and occupancy agreement for all or any State agencies or branches of State government.

The Department of Administration is responsible for the provision of certain administrative services to State agencies and is headed by a Commissioner who is appointed by and serves at the pleasure of the Governor. The Commissioner, who is required to be well-versed in administrative management and in the affairs of State government, directs a staff of more than 500 employees. Betty Cockrum is the Commissioner of the Department of Administration.

Indiana Code 4-13-1 empowers the Department of Administration to execute and administer all appropriations as provided by law and to execute and administer all laws that impose duties and functions upon the executive department of government. The Department of Administration also supervises and regulates the making of contracts by State agencies.

The Department of Administration is responsible for assigning office space, storage space and parking facilities for State agencies in accordance with Indiana Code 4-13-15. In carrying out its responsibilities, standards are required to promote increased efficiency through the grouping of interrelated State agencies and must facilitate public access to State government and ensure that State offices will be centrally located in urban areas, unless such location would not serve the interests of efficiency, economy and accessibility. The Department of Administration then assigns the appropriate space in or on real property owned or leased by the State, and, with the approval of the Governor, leases the space for the use of State agencies.

The Department of Administration must also prepare and make available for public inspection an annual report of office space, storage space and parking facilities leased for State offices in each county. Indiana Code 4-13-2-14.1 and 4-13-15-5 provide that, subject to certain exceptions, a contract to which a State agency is a party, including the Use and Occupancy Agreements, must be approved by the head of the State agency, the Commissioner of the Department of Administration, the State Budget Director, the Governor and the Attorney General. By law, a lease may provide for the State to make improvements on the leased premises if authorized by the public works division of the Department of Administration, and may provide for payment to the lessor at any time during the term of the lease for leasehold improvements made by the lessor. No lease may extend for a term of more than four years. The State may, however, renew a lease for successive terms.

LITIGATION

At the time of delivery of the 1999 Bonds, the Commission will certify that there is no litigation or other proceeding pending or, to the knowledge of the Commission, threatened in any court, agency or other administrative body affecting the existence of the Commission, the title of its officers to their respective offices, or seeking to restrain or enjoin the issuance or delivery of the 1999 Bonds, or the collection of the revenues or receipts derived from Use and Occupancy Agreement No. 3, pledged or to be pledged to pay the principal of, redemption premium, if any, and interest on the 1999 Bonds, or in any way contesting or affecting the issuance, execution, delivery, payment, security or validity of the 1999 Bonds, or in any way contesting or affecting the validity or enforceability of the Indenture and the Use and Occupancy Agreement No. 3, (hereinafter defined), or contesting the exclusion from gross income of interest on the 1999 Bonds for federal income tax purposes, or contesting the powers of the Commission, or any authority for the 1999 Bonds, the Indenture, or Use and Occupancy Agreement No. 3, or contesting in any way the completeness, accuracy or fairness of this Official Statement or materially and adversely affecting the financial condition of the Commission. For a discussion of litigation involving the State, see "LITIGATION" in Appendix A.

YEAR 2000 READINESS DISCLOSURE

State of Indiana. Prior to the 1996 session of the General Assembly, the State, with the assistance of a national accounting firm, conducted an assessment of the State's Year 2000 computer problem. In 1997, the State established a "Year 2000 Office" and contracted with a national software development firm recognized for its expertise with computer hardware and software applications to help manage the State's Year 2000 compliance

effort. The State's General Assembly has appropriated in excess of \$70 Million Dollars to specifically address the State's Year 2000 needs and the State expects to be substantially Year 2000 compliant by late Summer-1999. See "STATE BUDGET PROFILE - Year 2000 Computer Remediation" in Appendix A.

Depository Trust Company. DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to securityholders, book-entry deliveries, and settlement of trades within DTC ("DTC Services") continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon to other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provisions of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans, as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Bank One Trust Company, NA. Federal regulatory agencies recommended that all financial institutions have their programming changes and internal testing for mission-critical applications substantially complete by December 31, 1998. As of February 28, 1999, over 90% of Bank One Corporation's (the Trustee's parent corporation) affected information technology applications were tested and returned to production. All applications related to the Trustee's trust system, bond processing and payment system were certified as compliant prior to December 31, 1998. Bank One Corporation's corporate-wide data centers, telecommunications systems, security systems, desktop PCs and servers, and office equipment have undergone extensive testing and are largely Year 2000 ready.

By June 30, 1999, the Trustee is scheduled to complete internal and external interface testing, including testing with DTC. In addition, a risk management strategy is in place to address desktop and physical infrastructure, equipment, vendor and business partner readiness, and contingency planning. The Trustee anticipates that all systems and processes will be fully prepared for the Year 2000.

The information concerning the Trustee's Year 2000 readiness has been obtained from Trustee, and neither the Commission, the Financial Advisor nor the Underwriters take any responsibility for the accuracy thereof.

Ambac Assurance Corporation. Ambac Assurance's parent corporation, Ambac Financial Group, Inc. (the "Company"), is addressing the issue of computer programs' and embedded chips' ability to distinguish between the year 1900 and the year 2000, commonly known as the Y2K problem. The Company is assessing the risks to its businesses (including Ambac Assurance) related to the functionality of its own computer systems and those of third parties. Year 2000 readiness disclosure for the Company is set forth in *Management's Discussion and Analysis of financial Condition and Results of Operations* of the Company's 1998 Annual report to Shareholders (incorporated by reference into the Company's Annual Report on Form 10K for fiscal year ended December 31, 1998 filed with the Securities and Exchange Commission on March 30, 1999). Such information is specifically incorporated by reference herein. The Company is using internal and external resources and estimates its Y2K project costs to be

\$1.1 million, all of which was charged to 1998 operating expense. With respect to Ambac Assurance, the plan was completed on March 31, 1999 and consisted of three phases: (1) assessment and impact analysis (including inventory and code scanning), (2) testing and review, and (3) remediation. Although there are no indications that Ambac Assurance's internal systems will be non-compliant, management is in the process of developing contingent procedures in the event its critical systems should fail.

A potential exposure to Ambac Assurance is the failure by any insured issuer to make debt service payments due to an issuer's systems failure. An issuer's failure to make debt service payments due to Y2K related systems failures could result in a claim under an Ambac Assurance insurance policy. In such event, Ambac Assurance would utilize its sources of liquidity to pay claims. Ambac Assurance would expect full recovery of such claims when Y2K problems are resolved.

No assurance is made regarding the ultimate outcome of the Company's plan and external failures (such as failures affecting securities exchanges or funds and securities clearing organizations) could have a material adverse impact on the operations of the Company and its subsidiaries, including Ambac Assurance.

The information concerning the Ambac Assurance's Year 2000 readiness has been obtained from Ambac Assurance, and neither the Commission, the Financial Advisor nor the Underwriters take any responsibility for the accuracy thereof.

TAX MATTERS

In the opinion of Ice Miller Donadio & Ryan, bond counsel ("Bond Counsel"), under existing statutes, judicial decisions, regulations and rulings, interest on the 1999 Bonds is excludable from gross income under Section 103 of the Code, for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the 1999 Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Commission with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the 1999 Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. In the opinion of Bond Counsel, under existing statutes, judicial decisions, regulations and rulings, interest on the 1999 Bonds is exempt from income taxation in the State of Indiana. See Appendix B for the form of opinion of Bond Counsel.

The Code imposes certain requirements, which must be met subsequent to the issuance of the 1999 Bonds as a condition to the exclusion from gross income of interest on the 1999 Bonds for federal income tax purposes. The Commission will covenant not to take any action, nor fail to take any action within its power with respect to the 1999 Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the 1999 Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Indenture and certain certificates and agreements to be delivered on the date of delivery of the 1999 Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Indenture if the interest on the 1999 Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the date of the issuance of the 1999 Bonds.

The interest on the 1999 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the 1999 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general are all corporations transacting the business of a financial institution in Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed

under Section 265 of the Code. Taxpayers should consult their own tax advisers regarding the impact of this legislation on their ownership of the 1999 Bonds.

Although bond counsel has rendered an opinion that interest on the 1999 Bonds is excludable from federal gross income and exempt from State income tax, the accrual or receipt of interest on the 1999 Bonds may otherwise affect a 1999 Bondholder's federal income or state income tax liability. The nature and extent of these other tax consequences will depend upon the 1999 Bondholder's particular tax status and a 1999 Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the 1999 Bonds. Bond counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the 1999 Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the 1999 Bonds.

ORIGINAL ISSUE DISCOUNT

The 1999 Bond maturity schedule shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity for the 1999 Bonds. Certain of the 1999 Bonds (or portions thereof) have a yield to maturity that exceeds the stated interest rate (collectively, the "Discount Bonds"). The initial public offering price of the Discount Bonds is less than the principal amount payable at maturity, and as a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of each maturity of the Discount Bonds, or portions thereof, as set forth on the inside cover page of this Official Statement (assuming it is the first price at which a substantial amount of that maturity, or a portion thereof, is sold) (the "Issue Price for such maturity"), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity, or a portion thereof, and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bonds on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending January 1 and July 1 (with straight-line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of the Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors as to the amount of original discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

As described above in "TAX MATTERS," the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors which respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial public offering should consult their own tax advisors with regard to the other tax consequences of owning the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning Discount Bonds. It is possible under the applicable provisions governing the determination of state and local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The 1999 Bond maturity schedule shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity (or yield to the par call date) for each maturity (or portions thereof) of the 1999 Bonds. Certain of the 1999 Bonds have a yield to maturity (or yield to the par call date) that is less than the stated interest rate (collectively, the "Premium Bonds"). The initial offering price of the Premium Bonds is greater than the principal amount payable at maturity, and as a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial public offering of the 1999 Bonds will be required to adjust the owner's basis in the Premium Bond downward as a result of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Premium Bonds, including sale, redemption or payment at maturity. The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning Premium Bonds. Owners of the 1999 Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their tax advisors concerning treatment of Bond Premium.

ENFORCEABILITY OF REMEDIES

The enforceability of the rights and remedies of the Trustee or holders of the 1999 Bonds under the Indenture, the enforceability of the rights and remedies of the Commission under a Use and Occupancy Agreement, the enforceability of the rights and remedies of any other party under any other agreement in this financing, and the availability of remedies to any party seeking to enforce the pledge of the Trust Estate, including the pledge of the rentals under a Use and Occupancy Agreement (collectively, the "Pledges"), are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the rights and remedies provided (or which may be provided) under the Indenture, a Use and Occupancy Agreement and any other agreement in this financing, and the rights and remedies of any party seeking to

enforce the Pledges, may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 1999 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the exercise of judicial discretion in appropriate cases.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization and issuance of the 1999 Bonds are subject to the approving opinion of Ice Miller Donadio & Ryan, Indianapolis, Indiana, Bond Counsel, whose approving opinion will be printed on or delivered with the 1999 Bonds. Certain legal matters will be passed upon for the Commission by the Attorney General of the State, counsel to the Commission, and by Johnson Smith Pence Wright & Heath, LLP, Indianapolis, Indiana, disclosure counsel and for the Underwriters by Bingham Summers Welsh & Spilman, Indianapolis, Indiana, underwriters' counsel.

The various legal opinions to be delivered concurrently with the delivery of the 1999 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State of Indiana and the United States of America and bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The various legal opinions to be delivered concurrently with the delivery of the 1999 Bonds express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

UNDERWRITING

The 1999 Bonds are being purchased by the Underwriters set forth on the cover page of this Official Statement for which Goldman, Sachs & Co. is acting as representative. The Underwriters have jointly and severally agreed to purchase the 1999 Bonds at an aggregate purchase price of \$96,141,439.77 (which represents the face amount of the 1999 Bonds, less net original issue discount of \$111,100.90 and less an underwriting fee of \$532,459.33), plus accrued interest on the 1999 Bonds, pursuant to a contract of purchase entered into by and between the Commission and the Underwriters (the "Purchase Contract"). Such Purchase Contract provides that the Underwriters will purchase all of the 1999 Bonds if any are purchased. The initial offering price may be changed from time to time by the Underwriters.

The Underwriters have agreed to make a bona fide public offering of all of the 1999 Bonds at prices not in excess of the initial public offering prices set forth or reflected on the inside cover page of this Official Statement. The Underwriters may sell the 1999 Bonds to certain dealers (including dealers depositing 1999 Bonds into investment trusts) and others at prices lower than the offering prices set forth on the inside cover page hereof.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch IBCA, Inc. ("Fitch") have assigned long-term ratings of "Aaa," "AAA" and "AAA", respectively, to the Insured Bonds and "Aa3", "AA-" and "AA-" on the remaining 1999 Bonds. These ratings reflect only the views of Moody's, S&P and Fitch, and an explanation thereof may be obtained from Moody's at 99 Church Street, New York, New York 10007, from S&P at 25 Broadway, New York, New York 10004, and from Fitch at One State Street Plaza, New York, New York 10004.

Such ratings are not a recommendation to buy, sell or hold any of the 1999 Bonds. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P or Fitch if, in their respective judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price or marketability of the 1999 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Commission for the Fiscal Year ended June 30, 1998, which financial statements are the most recent available, have been audited by Katz, Sapper & Miller, independent certified public accountants, and are available upon request from the Commission. See "MISCELLANEOUS."

The Commission is required under the Indenture to file its annual financial statements with the Trustee.

The general purpose financial statements of the State, included in Exhibit A-1 to Appendix A, have been audited by the State Board of Accounts, as described in its report appearing in Exhibit A-1 to Appendix A.

FINANCIAL ADVISOR

O'Brien Partners, Inc. has served as Financial Advisor to the Commission with respect to the 1999 Bonds and in such capacity has reviewed certain matters pertaining to the 1999 Bonds on behalf of the Commission.

CONTINUING DISCLOSURE

Pursuant to continuing disclosure requirements promulgated by the Securities and Exchange Commission (the "SEC") in SEC Rule 15c2-12, as amended (the "Rule"), the Commission and the State will enter into a Continuing Disclosure Undertaking Agreement (the "Undertaking") with Bank One Trust Company, NA, as counterparty (the "Counterparty") to be dated the date of initial delivery of the 1999 Bonds. Pursuant to the terms of the Undertaking, the Commission and the State will agree to provide the following information while the 1999 Bonds are Outstanding:

- (a) Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository ("SID") then in existence, if any, when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 1999, together with the independent auditor's report and all notes thereto; and
- (b) Financial Information in this Official Statement. To each NRMSIR then in existence and to the SID within 210 days of the close of each fiscal year of the State, beginning with the fiscal year ending June 30, 1999, annual financial information for the State for such fiscal year, other than the audited financial statements described above, including (i) unaudited financial statements of the State if audited financial statements are not then available and (ii) operating data (excluding any demographic information or forecasts) of the general type provided under the following headings in this Official Statement (collectively, the "Annual Information"):

"Appendix A: Financial and Economic Statement for the State of Indiana"

- (c) Event Notices. In a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID, notice of any of the following events, if material.

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the 1999 Bonds;
- (7) modifications to the rights of owners of the 1999 Bonds;
- (8) 1999 Bond calls;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the 1999 Bonds; and
- (11) rating changes.

The Commission or the State may from time to time choose to provide notice of the occurrence of any other event, in addition to those listed above, if, in the judgment of the Commission or the State such other event is material with respect to the 1999 Bonds and should be disclosed. Neither the Commission nor the State commits to provide any such notice of the occurrence of any material event except those events listed above.

- (d) Failure to Disclose. In a timely manner, to the Counterparty, each NRMSIR or to the Municipal Securities Rulemaking Board, and to the SID, notice of the Commission's or the State's failure to provide the Annual Information as described above.

If any Annual Information or audited financial statements relating to the State referred to above no longer can be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Commission or the State to each NRMSIR and to the SID, along with any other Annual Information or audited financial statements required to be provided under the Undertaking, will satisfy the undertaking to provide such Annual Information or audited financial statements. To the extent available, the Commission or the State will cause to be filed along with other Annual Information or audited financial statements, operating data similar to that, which can no longer be provided.

Remedy. The sole remedy against the Commission or the State for any failure to carry out any provisions of the Undertaking shall be for specific performance of the Commission's or the State's disclosure obligations under the Undertaking and not for money damages of any kind or in any amount or for any other remedy. The Commission's or the State's failure to honor its covenants under the Undertaking shall not constitute a breach or default of the 1999 Bonds, the Indenture or any other agreement to which the Commission or the State is a party.

Modification of Undertaking. The Commission, the State and the Counterparty may, from time to time, amend or modify the Undertaking without the consent of the owners of the 1999 Bonds if: (a)(i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Commission or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of execution thereof, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interests of the holders of the 1999 Bonds, as determined either by (A) any person selected by the Commission and the State that is unaffiliated with the Commission and the State (including the Counterparty or the Trustee), or (B) an approving vote of the holders of 51% of Outstanding 1999 Bonds at the time of such amendment or modification; or (b) such amendment or modification is permitted by law or the Rule.

Counterparty's Obligation. The Counterparty will have no obligation to take any action whatsoever with respect to information or notices provided or required to be provided by the Commission or the State under the Undertaking (or of any Obligated Persons (as defined in the Rule) covered thereby), except as set forth below and

except any obligations arising from the Counterparty serving as a Dissemination Agent, and no implied covenants or obligations shall be read into the Undertaking against the Counterparty. Further, the Counterparty shall have no responsibility to ascertain the truth, completeness, timeliness, or accuracy of the information or notices provided as required under the Undertaking by the Commission or any Obligated Person, nor as to its sufficiency for purposes of compliance with the Rule or the requirements of the Undertaking.

If the Counterparty has not received the Annual Information by the date required by the Undertaking, the Counterparty shall notify the Commission, the State and any Dissemination Agent, by registered or certified mail, that it has not received such Annual Information.

The Counterparty is obligated to, and agrees that it will, within five Business Days (as defined in the Indenture) after mailing the notice referred to in the immediately preceding paragraph, forward to those persons or entities scheduled to receive Annual Information a notice in the event that the Counterparty has not received a copy of such Annual Information by the date required under the Undertaking; provided, however, that the Counterparty will not give such notices as described in this paragraph and the immediately preceding paragraph if the Commission or the State has provided the Counterparty with notice that the Commission or the State has issued notice of a failure to disclose as described above. Subsequent to the Counterparty's issuance of notice, if any, as described in this paragraph, the Counterparty will have no responsibility to take any further action concerning the Annual Information for the fiscal year to which such notice relates.

Copies of the Undertaking are available from the Commission upon request. See "MISCELLANEOUS."

CERTAIN RELATIONSHIPS

Bank One Trust Company, NA, the Trustee, and Banc One Capital Markets, Inc., an underwriter of the 1999 Bonds, are each subsidiaries of Bank One Corporation.

MISCELLANEOUS

Information contained in this Official Statement with respect to the Commission, the Department of Administration and the Department of Correction and copies of the Indenture, Use and Occupancy Agreement No. 1, Use and Occupancy Agreement No. 2, Use and Occupancy Agreement No. 3 and the Undertaking may be obtained from the Indiana State Office Building Commission, Indiana Government Center South, 402 West Washington Street, Room W-478, Indianapolis, Indiana 46204. The Commission's telephone number is (317) 232-2302.

This Official Statement is submitted in connection with the issuance and sale of the 1999 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Commission and duly executed and delivered on its behalf by the official signing below.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Commission are fully set forth in the Indenture in accordance with the Act. Neither any advertisement of the 1999 Bonds nor this Official Statement is to be construed as constituting a contract or agreement between the Commission and the purchasers or owners of the 1999 Bonds.

This Official Statement has been duly approved, executed and delivered by the Commission.

INDIANA STATE OFFICE BUILDING COMMISSION

By: /s/ Peggy Boehm
Secretary

June 24, 1999

APPENDIX A

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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INTRODUCTION

This Financial and Economic Statement (the "Statement") for the State of Indiana (the "State") includes a discussion of the State's current condition, the results of operations for the past five years and projections through the end of the 2000 – 2001 biennium ending June 30, 2001. The Statement is dated April 30, 1999. It contains information and projections that are current only through that date and includes a discussion of major fiscal decisions made by the 1999 General Assembly including adoption of a new state budget for the 2000 – 2001 biennium. The information has been compiled on behalf of the State by the Indiana State Budget Agency and includes information and data taken from the Agency's unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled "Litigation" has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The State also expects to issue updates and supplements after release of new State revenue or spending forecasts, adoption of the State budget or passage of major legislation affecting State finances. The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610. This Statement should be read in its entirety together with any updates or supplements.

The General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 1998 are Exhibit A-1 to this Appendix A.

STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of the State's government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to "take care that the laws are faithfully executed." The Governor may recommend legislation to the General Assembly of the State (the "General Assembly"), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is repassed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies which are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor's duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce and as the Commissioner of Agriculture.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Data Process Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The Speaker is selected by the members of the House of Representatives from among their ranks. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40 calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system which processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 1998, together with the independent auditors' report thereon, are included in the General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 1998, attached hereto as Exhibit A-1. See "FINANCIAL RESULTS OF OPERATIONS — Combined General and PTR Fund."

Fund Structure

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTRF" or "PTR Fund") is also reported by the State Auditor as a Special Revenue Fund. The PTRF is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTRF are sometimes discussed in this Appendix A as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS — Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units which are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds

Proprietary Funds use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies which render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources which are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.

Account Groups

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets, including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Budget Process

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

Budget Committee. The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

Revenue Projections. Revenue projections are prepared by the Indiana Economic Forecast Committee and the Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables which may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Technical Forecast Committee are individuals with expertise in public finance from within State and local government, business interest groups and State-supported higher education institutions.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

Appropriations

By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose which an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds may authorize a purpose which was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never exercised its authority to levy a tax.

Rainy Day Fund

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the "Rainy Day Fund." The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, "automatic" appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.
2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTRF.

See "FINANCIAL RESULTS OF OPERATIONS — Fund Balances — Rainy Day Fund" and Table 3 for further discussion of Rainy Day Fund balances and transfers.

Cash Management and Investments

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, PTRF, Rainy Day Fund and more than 60 other funds.

Interest bearing demand accounts are maintained in three Indianapolis banks to clear State warrants and to compensate for banking services rendered. Deposits are made directly by the State Treasurer or by State departments and agencies for credit to the State Treasury. Except for such demand accounts, all State funds are invested. Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Indiana Code 5-13.

Pursuant to State statute, the Treasurer may invest no more than 25% of the State's portfolio in securities with a final maturity exceeding five years. The remainder of the portfolio may not have final maturities exceeding two years.

Audits

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally

accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit A-1, including the Independent Auditor's Report therein.

STATE BUDGET PROFILE

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTRF revenues including certain revenues transferred from lottery and gaming accounts together with DSH revenues transferred to the General Fund. DSH revenues are extra Medicaid reimbursements provided to the State for hospitals which serve disproportionately large numbers of poor people. Total Operating Revenues are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. See "FINANCIAL RESULTS OF OPERATIONS — Combined General and PTR Fund."

Table 1 shown below summarizes actual Operating Revenues for the Fiscal Years ended June 30, 1994 through June 30, 1998 (the "Discussion Period"), as well as the Budget Agency's projected Operating Revenues for the Fiscal Years ending June 30, 1999, June 30, 2000 and June 30, 2001. The revenues summarized herein are derived from the Budget Agency's unaudited end-of-year working balance statements. See "FINANCIAL RESULTS OF OPERATIONS," including Tables 5 and 6.

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Table 1
State Operating Revenues
(millions of \$)

	Actual					Projected		
	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY99</u>	<u>FY 00</u>	<u>FY 01</u>
Individual Income Tax								
General Fund ¹	\$2,541.9	\$2,767.7	\$2,966.3	\$3,196.5	\$3,434.8	\$3,647.6	\$3,649.2	\$3,849.4
Sales and Use Tax								
General Fund	1,531.8	1,656.6	1,751.2	1,921.8	1,933.8	2,032.0	2,125.9	2,231.8
Property Tax								
Replacement Fund	<u>1,069.5</u>	<u>1,153.1</u>	<u>1,215.0</u>	<u>1,191.1</u>	<u>1,317.1</u>	<u>1,383.2</u>	<u>1,465.2</u>	<u>1,538.1</u>
Subtotal	\$2,601.3	\$2,808.7	\$2,966.2	\$3,112.9	\$3,250.9	\$3,415.2	\$3,591.1	\$3,769.9
Corporate Income Tax								
General Fund	\$ 859.4	\$ 888.6	\$ 881.9	\$ 899.2	\$ 938.1	\$1,039.0	\$1,076.7	\$1,123.2
Property Tax								
Replacement Fund	<u>45.1</u>	<u>61.8</u>	<u>100.1</u>	<u>100.1</u>	<u>77.4</u>	<u>30.0</u>	<u>30.0</u>	<u>30.0</u>
Subtotal	\$ 904.5	\$ 950.4	\$ 982.0	\$ 999.3	\$1,015.5	\$1,069.3	\$1,106.7	\$1,153.2
Other - General	694.5	780.1	655.9	736.2	780.7	774.0	784.1	787.7
 TOTAL GF and PTRF	 \$6,742.2	 \$7,306.9	 \$7,570.4	 \$8,044.9	 \$8,481.9	 \$8,906.1	 \$9,131.1	 \$9,560.2

Note: Fiscal Year ended June 30

- (1) Amounts projected by the Revenue and Technical Forecast Committee on June 13, 1999 have been reduced by \$246.8 for Fiscal Year 2000 and by \$298.7 for Fiscal Year 2001 for revenue reductions enacted by the 1999 General Assembly. (See "STATE BUDGET PROFILE, Revenue Reductions")

Source: State Budget Agency

Sales and use, and corporate and individual income taxes are the three primary sources of State Operating Revenues. In Fiscal Year 1998, combined revenues from those sources comprised about 91.5% of total State Operating Revenues. The following is a summary description of each of those revenue sources. See "FINANCIAL RESULTS OF OPERATIONS," including Table 5.

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Individual Adjusted Gross Income Tax

Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents derived from Indiana sources is taxed at 3.4%.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 1998, the \$3,434.8 million in receipts from the adjusted gross income tax on individuals constituted approximately 40.8% of total State Operating Revenues. State individual income tax rates were last increased effective for Calendar Year 1988.

Sales and Use Taxes

A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Of the receipts collected, 59.2% of the sales and use taxes are credited to the General Fund, 40.0% to the PTRF, 0.8% to the Public Mass Transportation Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 1998, the \$3,250.9 million in receipts from the sales and use taxes deposited in the General Fund and PTRF constituted approximately 38.6% of State Operating Revenues. The State sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes

There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) which derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross "earnings" basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty. All gross income tax receipts are credited to the General Fund.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the PTRF. See "FISCAL POLICIES — Governmental Funds."

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply. All receipts from the supplemental net income tax are credited to the General Fund.

The financial institutions tax is imposed on each corporation that is transacting the "business of a financial institution" in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

For Fiscal Year ended June 30, 1998, corporate income and financial institutions tax receipts totaled \$1,015.5 million and constituted approximately 12.1% of State Operating Revenues. State corporate income tax rates were last increased effective for Calendar Year 1987.

Other Operating Revenues

Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. Revenue from these sources together totaled about \$780.7 million or about 9.2% of total Operating Revenues in Fiscal Year 1998.

Revenue Growth

Individual and corporate income tax receipts, as well as sales and use tax receipts, increased in each Fiscal Year of the Discussion Period. Annual percentage increases for each component of Operating Revenues are reflected in Table 2 shown below. The growth in State Operating Revenues over the Discussion Period reflects the strong State economy. In April, 1999, the Economic Forecast Committee raised projected real growth in GDP for 1999 to approximately 3%, reduced growth in the first half of 2000 due to a modest Year 2000 adjustment, and then stabilized projected growth at a 2.9% rate. Projected growth in Operating Revenues for Fiscal Years 1999 – 2001 reflect this assessment.

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Table 2
Growth in State Operating Revenues
(by percentage)

<u>Fiscal Year</u>	<u>Individual Income Tax Revenue</u>	<u>Sales and Use Tax Revenue</u>	<u>Corporate Income Tax Revenue</u>	<u>Other Revenue</u>	<u>Total Revenue</u>
1994	5.4%	8.9%	10.6%(2)	12.7%	9.8%
1995	8.9	8.0	19.0	12.3	8.4
1996	7.2	5.6	3.3	-15.9	3.6
1997	6.4(1)	4.9	1.8	12.2	6.3
1998	7.5	4.4	1.6	6.0	5.4
Average FY94-FY98	7.1	6.4	7.3	5.5	6.7
1999 projected	6.5	5.1	10.8	-0.1	5.0
2000 projected	6.7(3)	4.6	3.6	1.3	5.3
2001 projected	6.4(3)	5.0	4.3	0.5	5.1
<u>Average</u> FY99-FY01	6.5%	4.9%	6.2%	0.6%	5.1%

- (1) The State received an additional estimated \$41.8 million of individual income tax receipts in Fiscal Year 1997 which are not reflected above, but are reflected in Tables 1 and 5. These additional receipts resulted from refunds that would ordinarily have been made in Fiscal Year 1997 but which were actually made in Fiscal Year 1998.
- (2) The State received an additional \$106.0 million of corporate income tax receipts in Fiscal Year 1994 (rather than Fiscal Year 1995). These receipts, which are not reflected above, but are reflected in Tables 1 and 5, as applicable, resulted from a change in State law that caused corporations to file and pay their July 31, 1994, corporate income tax payments on or before June 20, 1994.
- (3) Represents projected growth rates before the 1999 General Assembly enacted a number of reductions in the Individual Income Tax.

Source: State Budget Agency

Revenue Reductions

State tax rates were not increased at any time during the Discussion Period. As a result of continuing strong growth in State revenues and record reserves and balances, the 1999 General Assembly enacted targeted tax cuts that will result in reductions in income taxes as follows:

- An increase in the renter's deduction from \$1,500 to \$2,000 per year. It is estimated this will decrease individual income tax receipts by \$10.7 and \$10.8 million for Fiscal Years 2000 and 2001 respectively.
- An increase in the exemption for school age dependents from \$1,500 to \$2,500 per year. It is estimated this will decrease individual income tax receipts by \$57.9 and \$58.6 million for Fiscal Years 2000 and 2001 respectively.
- An increase in the deduction from \$1,000 to \$1,500 for persons age 65 and older who earn less than \$40,000 annually. It is estimated this will decrease individual income tax receipts by \$8.7 and \$8.9 million for Fiscal Years 2000 and 2001 respectively.
- A change to turn the State earned income tax deduction for families earning \$12,000 or less enacted by the 1997 General Assembly into a refundable tax credit. It is projected this will effectively decrease net receipts by \$3.4 million for each of Fiscal Years 2000 and 2001.

- A change to allow an exemption for the first \$15,000 assessed value in personal property, including inventory, from the property tax. It is estimated this change will decrease net collections by \$41.2 and \$84.2 million for Fiscal Years 2000 and 2001 respectively.
- A change to allow businesses and farmers to deduct 100% of property tax payments from State taxable income and allow homeowners to deduct up to \$2,500 in property taxes from State taxable income. It is estimated these changes will decrease net collections by \$138.9 and \$146.5 million for Fiscal Years 2000 and 2001 respectively.

The General Assembly also shifted certain welfare costs from counties to the State. It is estimated this change will increase State distributions by \$22.7 and \$46.4 million for Fiscal Years 2000 and 2001 respectively.

Lottery and Gaming Revenues

By statute, certain revenues from the Hoosier Lottery and the riverboat gaming wagering tax, horse racing pari-mutual wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Lottery and Gaming Surplus Account (the "Surplus Account") of the Build Indiana Fund, which was established by the General Assembly in 1989 when the Hoosier Lottery was authorized and began operations.

From Fiscal Year 1990 through June 30, 1998, \$1,387 million of Gaming Revenues have been transferred to the State. In Fiscal Year 1998, Gaming Revenues totaling \$325.5 million were deposited in the Surplus Account from the following sources:

Hoosier Lottery	\$178.6 million(1)
Riverboat gaming	169.9 million
Horse racing	3.4 million
Charity gaming	2.5 million
Interest earnings	11.1 million

- (1) The \$178.6 million includes \$40.0 million of Hoosier Lottery revenues that were dedicated to State and local pension relief — \$30.0 million to the State Teachers' Retirement Fund and \$10.0 million to the Local Police and Fire Pension Relief Fund — before Hoosier Lottery revenues were transferred to the Surplus Account. Total lottery revenues were \$178.6 million. The 1999 General Assembly increased transfer of Hoosier Lottery revenues for pension relief from \$40.0 million to \$60.0 million. Beginning with Fiscal Year 2000, \$60 million of Hoosier Lottery revenues will be dedicated to State and local pension relief — \$30.0 million to the State Teachers' Retirement Fund and \$30.0 million to the Local Police and Fire Pension Relief Fund — before Hoosier Lottery revenues are transferred to the Surplus Account. See "STATE RETIREMENT SYSTEMS."

Source: State Budget Agency.

All Gaming Revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority is to the State's counties for motor vehicle excise tax replacement providing for a substantial cut in the excise tax charged on motor vehicles -- estimated at \$219.8 million for Fiscal Year 2000, the first year of the next biennium.

Second priority distributions are currently made to:

the Indiana Technology Fund -- \$76.0 million for Fiscal Years 2000 -- 2001 including \$63.5 million to help schools and libraries expand their technological capabilities and \$2 million for the Intelenet Commission for continued development of the State computer "backbone."

In addition, the General Assembly made a number of one-time appropriations for the biennium from the Surplus Account -- \$50 million for the 21st Century Research and Technology Fund, \$20 million to help Indiana public television stations convert to digital television and \$40 million for community wastewater and drinking water grants and loans.

Finally, remaining Gaming Revenues are made available to fund State and local capital projects, as authorized by the General Assembly. For the 2000 – 2001 biennium, \$89.1 million was appropriated for about 1223 projects.

Gaming revenues are not included in State Operating Revenues. However, gaming revenues represent a significant source of discretionary income to the State. It has been State policy that gaming revenues not be used to fund operating expenses of the State. For that reason, gaming revenues are potentially available to relieve temporary pressures on the State budget should shortfalls in general purpose tax revenues occur. It is estimated that after deduction of the appropriations explained above, there will still be an unobligated balance in the Surplus Account on June 30, 2001 of \$655.7 million.

The State's 2000-2001 Biennial Budget

A strong economy and growth in the State's balances and reserves during the Discussion Period permitted the State to increase combined General Fund and PTRF appropriations for essential governmental services and strategic economic investments for the 2000-2001 biennium. Those appropriation increases for the next biennium can be described in three broad categories:

- those reflecting the State's commitment to invest in primary, secondary and higher education.
- public safety, including increased spending on corrections and law enforcement.
- those aimed at aggressively addressing the unfunded liability of the State Teachers' Retirement Fund; during the Discussion Period, substantial General Funds and other revenues have been appropriated to fund the Pension Stabilization Fund. The budget passed by the General Assembly for the 2000-2001 biennium include \$250 million for the Pension Stabilization Fund. See "STATE RETIREMENT SYSTEMS — State Teachers' Retirement Fund."

For Fiscal Year 2000, appropriations for the five largest functional categories total \$7,170.8 million, or about 75.1% of the General Fund - PTR Fund combined total. Following is a discussion of those five largest categories. Numbers are derived from the Budget Agency's biennial List of Appropriations and unaudited working statements. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund".

Local School Aid. The State's largest operating appropriations — payable from both the General Fund and PTRF — is for local school aid. Local school aid includes distributions for programs such as assessment and performance in addition to direct tuition support. Combined local school aid appropriations for Fiscal Year 2000 from the General Fund – PTRF amounted to \$3,302.2 million and constituted 34.6% of combined General Fund -PTRF appropriations.

As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTRF. The General Assembly established the State's calendar year 1972 funding level as a base for local school aid.

Total local school formula for direct tuition support increased by an average of 4.7% for calendar year 2000 with no school corporation receiving an increase of less than 2.5%.

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal to debt service due on qualified debt of such institutions. (See "Fee Replacement Appropriations to State Universities and Colleges" below.) General Fund appropriations for higher education for Fiscal Year 2000 totaled \$1,290.5 million and constituted 13.5% of combined General and PTR Fund appropriations. This represents an increase for Higher Education of about \$80.7 million, or 6.7%, for Fiscal Year 2000.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The (a) estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 1998, which is eligible for Fee Replacement Appropriations, and (b) amount of Fee Replacement Appropriations with respect thereto for Fiscal Year 1999 is shown below.

	<u>Estimated Amount of Debt Outstanding</u>	<u>Fiscal Year 1999 Fee Replacement Appropriation</u>
Ball State University	\$ 33,976,559	\$ 6,936,289
Indiana University(1)	421,767,372	41,008,656
Indiana State University	56,875,000	5,152,675
Indiana Vocational Tech College	49,970,980	7,105,202
Purdue University(2)	232,042,088	27,049,657
University of Southern Indiana	38,788,101	3,634,342
Vincennes University	<u>20,197,462</u>	<u>2,992,953</u>
Total	\$ 853,617,562	\$ 93,879,774

(1) Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

(2) Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

Medicaid. The third largest operating expenditure — payable solely from the General Fund — is the State's share of Medicaid assistance. Medicaid expenditures grew dramatically at the beginning of the Discussion Period. However, administrative rule making and legislative action beginning in Fiscal Year 1993 resulted in a number of significant cost containment initiatives designed to slow the growth in Medicaid expenditures. As a result, Medicaid expenditures declined in Fiscal Years 1995 and 1996 before increasing again in Fiscal Year 1997.

The State's share of spending for Medicaid is expected to total approximately \$987.3 million in Fiscal Year 1999, approximately 10.9% of combined General and PTR Fund spending. Medicaid appropriations for Fiscal Year 2000 total \$1,025.8 million representing an expected increase over Fiscal Year 1999 of about 3.9%. This is about 10.7% of combined appropriations for Fiscal Year 2000.

Property Tax Relief. The fourth largest operating expenditure—payable solely from the PTRF — is for property tax relief. Spending for property tax relief, including the Homestead Credit, is expected to total \$863.1 million in Fiscal Year 1999. Appropriations for Property Tax Relief for Fiscal Year 2000 total \$909.3 million, about 9.5% of combined General Fund-PTRF appropriations.

Corrections. The fifth largest operating expenditure, payable solely from the General Fund, is for the Department of Corrections. Spending to operate the State's correctional facilities and related programs are expected to total about \$409.8 million in Fiscal Year 1999. This constitutes approximately 5.0% of expected combined General Fund and PTRF expenditures. To meet a growing prison population, the 1997 General Assembly authorized the State Office Building Commission to issue bonds to finance the construction of: (1) Phase I of the Miami Correctional

Facility, an additional medium security facility to provide 1,400 beds for adult males in Miami County, Indiana; (2) an additional 350 bed correctional facility for male juveniles near Pendleton, Indiana; and, (3) a special needs facility with 1,800 beds to be converted from an existing State institution near New Castle, Indiana. In addition, the 1999 General Assembly authorized the State Office Building Commission to issue bonds to finance Phase II of the Miami Correctional Facility. See "STATE INDEBTEDNESS — Authorized but Unissued Debt." As these facilities are placed into use, additional operating appropriations will be required. Largely for this reason, appropriations for Corrections for Fiscal Year 2000 total \$494.4 million, an increase over expected Fiscal Year 1999 spending of about 20.6%. This equals about 5.2% of combined General Fund-PTRF appropriations for Fiscal Year 2000.

Other. The balance of State expenditures is comprised of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, State administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For Fiscal Year 2000 other combined General Fund-PTRF appropriations total \$2,526.5 million. This constitutes approximately 26.5% of combined General and PTR Fund appropriations for all purposes.

Transfers. In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (a) from the General Fund to the PTRF and the Rainy Day Fund or (b) from the Rainy Day Fund to the PTRF and the General Fund. See "FISCAL POLICIES — Rainy Day Fund" and "FINANCIAL RESULTS OF OPERATIONS" including Table 5.

Year 2000 Computer Remediation

The State is aggressively pursuing a plan designed to insure that all computer hardware and software and related electronic devices are Year 2000 compliant. Prior to the 1996 session of the General Assembly, the State, with the assistance of a national accounting firm, conducted a systematic assessment of the State's Year 2000 computer problem. The assessment determined that it would cost about \$87 million to fully address the State's needs. Based on that assessment, the General Assembly appropriated \$58 million specifically to address Year 2000 needs. It was determined that the remaining costs would be covered through normal hardware and software replacement for which other funds were already appropriated. In 1997, the State established a "Year 2000 Office" and contracted with a national software development firm recognized for its expertise with computer hardware and software applications to help manage the State's Year 2000 effort. That effort is progressing as expected. It is believed that there are sufficient funds available to address modification and acquisition of hardware and software identified in the original assessment.

In the Fall of 1998, the State identified a number of telecommunications systems, medical devices, embedded processors and miscellaneous office equipment that may not be Year 2000 compliant. The 1999 General Assembly appropriated an additional \$15.9 million to address these remaining Year 2000 needs. The State is now fully funded for all known Year 2000 needs, including amounts for reasonable contingencies, and expects to be substantially Year 2000 compliant by late Summer-1999.

FINANCIAL RESULTS OF OPERATIONS

Fiscal Management

Indiana's fiscal policy is aimed at building and maintaining strong unappropriated balances and reserves in its Rainy Day and combined General and PTR Fund, while adequately funding essential governmental functions, wisely managing debt issuance; and aggressively addressing unfunded liabilities in State pension, or retirement systems, especially the State Teachers' Retirement Fund. See also "STATE RETIREMENT SYSTEMS."

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Combined General and PTR Fund and the Medicaid Reserve. Each of these funds is described below.

Fund Balances

Rainy Day Fund. One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession. As described under "FISCAL POLICIES — Rainy Day Fund," access to and balances in the Rainy Day Fund are determined by statutory formula, subject to future General Assembly action. The Rainy Day Fund has been funded at the maximum permitted by law in each of the last three Fiscal Years. The Rainy Day Fund is currently funded at the maximum allowable balance, \$496.1 million. The Budget Agency projects that the actual balance will increase, along with the maximum allowable balance, in each of Fiscal Years 1999-2001. The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund. Rainy Day Fund balances are reflected on Table 3.

Table 3
Rainy Day Fund
Schedule of Cash Flow
(millions of \$)

	Actual					Projected		
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999(1)</u>	<u>2000</u>	<u>2001</u>
Beginning Cash Balance	\$ 300.6	\$ 370.3	\$ 419.3	\$ 439.5	\$ 466.1	\$ 496.1	\$ 524.5	\$ 533.2
Interest Earned(2)	16.1	18.2	18.8	25.7	27.2	22.3	23.6	24.0
Loans Made from Fund(3)	-	-	-	-	-	-	-	-
Sale Proceeds(4)	31.5	0.9	0.9	0.7	0.5	0.7	0.7	0.4
Net Transfers(5)	<u>22.1</u>	<u>29.9</u>	<u>0.6</u>	<u>0.2</u>	<u>2.4</u>	<u>5.4</u>	<u>(15.6)</u>	<u>(.1)</u>
Ending Cash Balance(6)	\$ 370.3	\$ 419.3	\$ 439.5	\$ 466.1	\$ 496.1	\$ 524.5	\$ 533.2	\$ 557.5
Maximum Allowable Fund Balance	\$ 393.8	\$ 419.3	\$ 439.5	\$ 466.1	\$ 496.1	\$ 524.5	\$ 533.2	\$ 557.5
Loans Outstanding(7)	\$ 4.0	\$ 3.3	\$ 2.8	\$ 2.1	\$ 1.4	\$ 1.1	\$ 0.4	-

Notes: Totals may not add as a result of rounding.

Fiscal Years ended June 30

- (1) Revenues upon which transfers are projected are those projected by the Technical Forecast Committee on April 13, 1999; expenditures are those authorized by the 1999 General Assembly. Amounts are merely projections, and actual results may differ materially from such projections. Factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) Interest assumed at 4.5% for Fiscal Years 1999 – 2001; includes interest payments received on loans made.
- (3) Reserved to reflect loans made out of the Rainy Day Fund during the Fiscal Year indicated. No loans were made during the Discussion Period, and no projections of loans are made for Fiscal Years 1999 – 2001.
- (4) Payments of principal received on loans made plus proceeds of the sale of a loan made to the City of Indianapolis, as more fully described in note 7.
- (5) Net Transfers reflect: (a) in Fiscal Year 1994, a \$22.1 million transfer from the General Fund; (b) in Fiscal Year 1995, a \$29.9 million transfer from the General Fund; (c) in Fiscal Year 1996, a \$106.7 million transfer from the General Fund and a \$106.1 million transfer to the PTRF; (d) in Fiscal Year 1997, a \$19.8 million transfer from the General Fund and a \$19.6 million transfer to the PTRF; (e) in Fiscal Year 1998, a \$21.1 million transfer from

the General Fund and \$18.7 million transfer to the PTRF; (f) in Fiscal Year 1999, a projected \$112.4 million transfer from the General Fund and a projected \$107.0 million transfer to the PTRF; (g) in Fiscal Year 2000, a projected \$15.6 million transfer to the PTRF; and (h) in Fiscal Year 2001, a projected \$0.1 million transfer to the PTRF.

- (6) The amount of loans outstanding is not reflected in the ending cash balance statements.
- (7) From time to time, the General Assembly has authorized the State Board of Finance to lend moneys in the Rainy Day Fund to specified local governments for specified purposes. The aggregate amount of loans authorized by the General Assembly totaled \$55.3 million; however, loans of only \$37.7 million, including one at no interest, were actually made. In February 1993, the General Assembly caused the State Board of Finance to sell, at par plus deferred and accrued interest, the loan made from the Rainy Day Fund to the City of Indianapolis. The sale proceeds — approximately \$33.4 million (including interest) — were deposited in the Rainy Day Fund. No further loans or grants from the Rainy Day Fund have been authorized by the General Assembly; however, future General Assemblies may authorize loans or grants from the Rainy Day Fund.

Source: State Budget Agency.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. The Tuition Reserve was maintained at \$120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the Tuition Reserve in each of Fiscal Years 1989 through 1999. The Tuition Reserve is expected to be set at \$270.0 million for Fiscal Years 2000 and 2001.

Table 4
Tuition Reserve
(millions of \$)

Actual					Projected		
<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
\$ 190.0	\$ 200.0	\$ 215.0	\$ 240.0	\$ 240.0	\$ 255.0	\$ 270.0	\$ 270.0

Note: For Fiscal Year ended June 30

Source: State Budget Agency

Combined General and PTR Fund. The PTRF was created by statute in Fiscal Year 1973. It is funded from 40% of revenues from the State sales and use tax and a portion of corporate adjusted gross income tax receipts. The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. In Fiscal Year 1998, \$596.2 million was transferred from the General Fund to balance the PTRF. It is expected that substantial General Fund transfers will also be required in future Fiscal Years.

The General Fund and the PTRF are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTRF are sometimes discussed in this Appendix A as a single, combined fund.

This discussion, and Table 5, summarize the actual results of State operations for the Discussion Period, as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 1999 – 2001, for the combined General and PTR Fund.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.

Table 5
Combined General and PTR Fund
(millions of \$)

	Actual					Projected		
	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999(1)</u>	<u>2000(1)</u>	<u>2001(1)</u>
Revenues(2)								
Sales and Use Taxes	\$2,580.4	\$2,786.1	\$2,942.3	\$3,112.9	\$3,250.9	\$3,415.2	\$3,591.1	\$3,769.9
Adjusted Gross Income								
Tax-Individuals	2,541.9	2,767.7	2,966.3	3,196.5	3,434.8	3,647.6	3,649.2	3,849.4
Corporate Income Taxes	904.5	950.4	982.0	999.3	1,015.5	1,069.3	1,106.7	1,153.2
Tax Reduction (3)	-	-	-	-	-	-	(22.7)	(46.4)
Other Taxes	<u>291.8</u>	<u>307.4</u>	<u>299.1</u>	<u>321.7</u>	<u>340.8</u>	<u>354.3</u>	<u>353.2</u>	<u>352.4</u>
Total Taxes	\$6,318.6	\$6,811.6	\$7,189.7	\$7,630.4	\$8,042.0	\$8,486.4	\$8,677.5	\$9,078.5
Interest Income	46.5	92.1	141.1	146.5	178.8	170.0	165.0	160.0
Other Revenue(4)	<u>377.1</u>	<u>748.2</u>	<u>239.6</u>	<u>268.0</u>	<u>261.1</u>	<u>249.7</u>	<u>288.6</u>	<u>321.7</u>
Total Revenue	\$6,742.2	\$7,651.9	\$7,570.4	\$8,044.9	\$8,481.9	\$8,906.1	\$9,131.1	\$9,560.2
Expenditures								
Local School Aid	\$2,719.5	\$2,997.6	\$2,961.1	\$3,092.2	\$3,423.1	\$3,722.0	\$3,856.3	\$4,065.7
Higher Education	991.2	1,006.9	1,104.2	1,101.8	1,180.5	1,242.4	1,331.5	1,389.7
PTRF Credits	661.4	846.7	784.3	822.1	873.3	962.8	1,015.9	1,069.6
Medicaid	1,093.4	873.9	860.9	931.3	913.3	964.5	986.9	1,071.7
All Other	<u>1,164.4</u>	<u>1,297.6</u>	<u>1,513.8</u>	<u>1,958.9</u>	<u>1,908.2</u>	<u>2,115.7</u>	<u>2,364.9</u>	<u>2,398.8</u>
Subtotal Expenditures	\$6,629.8	\$7,022.7	\$7,224.3	\$7,906.3	\$8,298.4	\$9,007.4	\$9,555.5	\$9,995.5
Less: Reversions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5.4</u>	<u>20.0</u>	<u>20.0</u>
Total Expenditures	\$6,629.8	\$7,022.7	\$7,224.3	\$7,906.3	\$8,298.4	\$8,957.4	\$9,535.5	\$9,975.5
Excess (Deficiency) of								
Revenues over								
Expenditures	112.4	629.2	346.1	138.6	183.5	(51.3)	(404.4)	(415.3)
Less: Transfers to (from)								
Rainy Day Fund	<u>22.1</u>	<u>29.9</u>	<u>0.6</u>	<u>0.2</u>	<u>2.4</u>	<u>5.4</u>	<u>(15.6)</u>	<u>(0.1)</u>
Total Transfers	\$ 22.1	\$ 29.9	\$ 0.6	\$ 0.2	\$ 2.4	\$ 5.4	\$ (15.6)	\$ (0.1)

Increase (Decrease) in								
Fund Balance	\$ 90.3	\$ 599.3	\$ 360.5	\$ 138.4	\$ 181.1	\$ (56.7)	\$ (388.9)	\$ (415.1)
Beginning Balance (5)	\$ 189.7	\$ 280.0	\$ 879.3	\$1,239.8	\$1,378.2	\$1,559.3	\$1,502.6	\$1,113.7
Ending Balance (5)	\$ 280.0	\$ 879.3	\$1,239.8	\$1,378.2	\$1,559.3	\$1,502.6	\$1,113.7	\$ 698.6

- (1) Revenues are those projected by the Revenue and Technical Forecast Committee on June 13, 1999; expenditures are those authorized by the 1999 and prior General Assemblies. Amounts are merely projections, and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly.
- (2) Amounts projected by the Revenue and Technical Forecast Committee on June 13, 1999 have been reduced by \$260.8 for Fiscal Year 2000 and by \$312.4 for Fiscal Year 2001 for revenue reductions enacted by the 1999 General Assembly. (See "STATE BUDGET PROFILE – Revenue Reductions").
- (3) Amounts represent additional property tax reductions for certain local welfare levies. The reductions, approximately \$22.7 million for Fiscal Year 2000 and approximately \$46.4 million for Fiscal Year 2001, enacted by the 1999 General Assembly, will result in increased State PTRF expenditures (See "STATE BUDGET PROFILE – Revenue Reductions").
- (4) Includes certain surplus Hoosier Lottery revenues in Fiscal Year 1994. Also includes refunds of prior year expenditures, reimbursements of prior year expenditures, return of escrows to the General Fund and prior year revenue transferred to the General Fund in Fiscal Year 1996. Also includes \$345.0 million of extraordinary revenues in Fiscal Year 1995 — \$155.0 million transferred from a prior Medicaid reserve, \$50.6 million of federal reimbursements of administrative and program expenses of the State Family and Social Services Administration, \$85.1 million transferred upon dissolution of a court-ordered, litigation-related escrow fund and \$54.3 million of court and related fee revenues that could have been transferred to the General Fund in prior Fiscal Years.
- (5) Includes a \$190.0 million Tuition Reserve for Fiscal Year 1994 (actual), a \$200.0 million Tuition Reserve for Fiscal Year 1995 (actual), a \$215.0 million Tuition Reserve for Fiscal Year 1996 (actual), a \$240.0 million Tuition Reserve for Fiscal Year 1997 (actual), a \$240.0 million Tuition Reserve for Fiscal Year 1998 (actual), a \$255.0 million Tuition Reserve for Fiscal Year 1999 (actual), and a \$270.0 million Tuition Reserve for Fiscal Years 2000 and 2001 (projected).

Notes: Fiscal Year Ended June 30

Totals may not add as a result of rounding.

Source: State Budget Agency.

Combined State Balances and Reserves

The State's total "Balances and Reserves" are defined as the balances in the combined General and PTR Fund, together with the balances in the Rainy Day Fund and the Tuition Reserve. To reflect the real level of Balances and Reserves on a continuing basis, they are expressed as a percent of Operating Revenues. Table 6 sets forth a history of total state Balances and Reserves compared to Operating Revenues for the past ten years and projections for Fiscal Years 1999 – 2001.

Table 6
Combined State Reserves and Balances
(in millions of \$)

State Fiscal Year	Combined Property Tax-General Fund	Tuition Reserve	Rainy Day Fund	Total Balances	Operating Revenues	Balance as a % of Operating Revenues
----- actual -----						
1989	\$ 424.6	\$ 135.0	\$ 265.4	\$ 825.0	\$5,263.3	15.7%
1990	372.2	144.0	318.0	834.2	5,491.3	15.2%
1991	109.4	155.0	323.0	587.4	5,560.6	10.6%
1992	138.9	165.0	328.6	632.5	5,784.5	10.9%
1993	9.7	180.0	300.6	490.3	6,098.6	8.0%
1994	90.0	190.0	370.3	650.3	6,720.1	9.7%
1995	679.3	200.0	419.3	1,298.6	7,277.0	17.8%
1996	1,024.8	215.0	439.5	1,679.3	7,569.8	22.2%
1997	1,138.2	240.0	466.1	1,844.3	7,937.8	23.2%
1998	1,319.3	240.0	496.1	2,055.4	8,481.9	24.2%
----- projected -----						
1999	1,247.6	255.0	524.5	2,027.1	8,900.7	22.8%
2000	843.7	270.0	533.2	1,646.9	9,146.7	18.0%
2001	428.6	270.0	557.5	1,256.0	9,560.3	13.1%

Source: State Budget Agency

Note: Totals may not add due to rounding

Since Fiscal Year 1989, the state's Balances and Reserves have dropped below 10% of Operating Revenues only twice, in Fiscal Years 1993 and 1994 when such balances represented approximately 8.0% and 9.7% of Operating Revenue respectively. After Fiscal Year 1994, total balances and reserves grew significantly reaching a record 24.2% of Operating Revenues on June 30, 1998.

The 1999 General Assembly enacted a number of targeted tax reductions and spending increases that are projected to decrease total combined balances and reserves to \$1,646.9 by June 30, 2000 and to \$1,256.0 by June 30, 2001. (See "STATE BUDGET PROFILE – Revenue Reductions, and The State's 2000-2001 Biennial Budget".)

Balanced Budget for the 2000-2001 Biennium

Although the Budget Agency has projected a decline in total combined balances and reserves over the 2000-2001 biennium of approximately \$771.1 million, each of Fiscal Years 2000 and 2001 reflects a current year surplus of operating revenues over operating expenses. This is because the expected "spending down" of balances and reserves was due to one-time appropriations that do not require or imply similar increased spending over future years. Significant one-time appropriations authorized for the 2000-2001 biennium include: \$200.0 for local road improvements, \$250.0 million for the Pension Stabilization Fund, (See "STATE RETIREMENT SYSTEMS — State Teacher's Retirement Fund"), \$12.8 million from the General Fund for additional Year 2000 remediation, \$5.0 million for clean up of "brownfields" industrial sites and approximately \$120.0 million in capital spending for university and State facilities. When total appropriations are reduced by appropriations for expected one-time expenses, total projected expenditures are within projected operating revenues for each year of the biennium.

Medicaid Reserve

In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. The Medicaid Reserve represents the estimated amount of obligations that have been incurred, but not paid, at the end of each respective Fiscal Year. Although not included in the state's combined Balances and Reserves, the Medicaid Reserve Account

represents a significant reserve that could help cushion unforeseen increases in Medicaid should they arise. The balance in the Medicaid Reserve Account was \$209.5 million on June 30, 1998.

STATE INDEBTEDNESS

Constitutional Limitations on State Debt

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES — State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues (See "STATE BUDGET PROFILE — Major Expenditures — Higher Education"). In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not already authorized is subject to a number of conditions that cannot be predicted at present. See "STATE INDEBTEDNESS — Authorized but Unissued Debt".

Obligations Payable from Possible State Appropriations

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, Transportation Finance Authority, Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission is authorized to issue revenue bonds to finance or refinance the acquiring, construction and equipping of buildings, structures or improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; or (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

<u>Facility</u>	<u>Project Description</u>
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility
Wabash Valley Correctional Institution; Rockville Correctional Facility	Acquisition, construction and equipping of men's maximum security correctional facility and medium security correctional facility; acquisition, construction, renovation and equipping of women's correctional facility

To see a listing by bond series of the outstanding indebtedness of the State Office Building Commission, see "STATE INDEBTEDNESS — Debt Statement — Obligations Payable From Possible State Appropriations."

The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or portions thereof) will be payable, principally from rental payments on such facility (or portions thereof) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or portions thereof). The term of each such use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly.

Transportation Finance Authority - Highway Financing. The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana. To see a listing by bond series of the indebtedness of the TFA for Highway Financing, see "STATE INDEBTEDNESS — Debt Statement — Obligations Payable From Possible State Appropriations."

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable solely from biennial appropriations for the actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use.

Transportation Finance Authority - Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time.

The authorizing legislation defines "aviation related property or facilities" as those properties or facilities that are utilized by a lessee, or a lessee's assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. On February 11, 1992, the TFA issued \$201,320,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, Series A (the "1992 Airport Facilities Bonds"). On June 13, 1995, the TFA issued \$29,720,000 aggregate principal amount of Airport Facilities Lease Revenue Bonds, 1995 Series A (the "1995 Airport Facilities Bonds"). On December 18, 1996, the TFA issued \$137,790,000 aggregate principal amount of Airport Facilities Lease Revenue Refunding Bonds, 1996 Series A (the "1996 Airport Facilities Bonds"), to advance refund a portion of the 1992 Airport Facilities Bonds (the 1992 Airport Facilities Bonds, the 1995 Airport Facilities Bonds and the 1996 Airport Facilities Bonds, collectively, the "Airport Facilities Bonds"). As of September 30, 1998, \$232,905,000 aggregate principal amount of the Airport Facilities Bonds remains outstanding.

The 1992 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at Indianapolis International Airport (the "Phase I Facility"), and the 1995 Airport Facilities Bonds were issued to finance a portion of the costs of constructing and equipping additional improvements (the "Phase IA Facility"). At present, United Air Lines, Inc. is using the Phase I Facility and Phase IA Facility (collectively, the "Airport Facilities") as a major aircraft maintenance and overhaul facility. The TFA expects that United will continue to use the Airport Facilities for aircraft maintenance operations.

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Airport Facilities Lease"). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

Aviation Technology Center. On December 22, 1992, the TFA issued \$11,630,000 aggregate principal amount of Aviation Technology Center Lease Revenue Bonds, Series A (the "Aviation Technology Center Bonds"). As of September 30, 1998, \$10,605,000 aggregate principal amount of the Aviation Technology Center Bonds remains outstanding.

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the "Aviation Technology Center") at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations. Recently, a Boeing 737 aircraft was added to the Aviation Technology Center for use for educational purposes by Vincennes and Purdue Universities.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Aviation Technology Center Lease"). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS — Contingent Obligations — Transportation Finance Authority - Toll Road Financing."

Recreational Development Commission. The Indiana Recreational Development Commission (the "Recreation Commission") was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the "DNR") may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued, on April 6, 1994, \$19,285,000 aggregate principal amount of its Revenue Bonds, Series 1994 (the "Series 1994 Bonds"), to finance and refinance costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State. As of September 30, 1998, \$18,975,000 aggregate principal amount of the Series 1994 Bonds remain outstanding.

The Recreation Commission also issued, on February 12, 1997, \$6,600,000 aggregate principal amount of its Revenue Bonds, Series 1997 (the "Series 1997 Bonds" and, collectively with the Series 1994 Bonds, the "Park Revenue Bonds") to finance the costs of acquisition, construction, renovation and equipping of improvements at Fort Benjamin Harrison State Park, including a golf course and related facilities (all projects financed with Park Revenue Bonds are collectively, the "Park Projects"). As of September 30, 1998, \$6,400,000 aggregate principal amount of the Series 1997 Bonds remain outstanding.

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR's use of the Park Projects under a master use and occupancy agreement, as supplemented by a supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

Indiana Bond Bank. The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998A Bonds issued in the principal amount of \$10,830,000 to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 A Bonds in the principal amount of \$11,760,000 to finance construction of the State's Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. The essential security for the bonds is lease rentals payable under a lease between the State of Indiana, acting by and through the Department of Administration, as tenant, and The Trustees of Purdue University, as landlord. For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "STATE INDEBTEDNESS — Contingent Obligations — Indiana Bond Bank" and Table 10.

Debt Statement - Obligations Payable From Possible State Appropriations

Table 7 lists, by issuing agency, all long term debt that is subject to possible State appropriations through January 1, 1999.

Table 7
Schedule of Long Term Debt
Obligations Payable From Possible State Appropriations
(as of December 31, 1998)

Issuer/Series	Original Par Amount	Ending Balance 6/30/98	(Redeemed)/ Issued 2 Quarters FY 99	Ending Balance 12/31/98
State Office Building Commission				
Government Center Parking Facilities				
Series 1990A	\$ 26,669,824	\$ 10,475,687	\$ -	\$ 10,475,687
Series 1993A	<u>42,410,000</u>	<u>38,995,000</u>	<u>(1,810,000)</u>	<u>37,185,000</u>
Subtotal	\$ 69,079,824	\$ 49,470,687	\$ (1,810,000)	\$ 47,660,687
Government Center North				
Series 1990B	\$ 77,123,542	\$ 32,492,747	\$ -	\$ 32,492,747
Series 1993B	<u>107,555,000</u>	<u>100,655,000</u>	<u>(3,655,000)</u>	<u>97,000,000</u>
Subtotal	\$ 184,678,542	\$ 133,147,747	\$ (3,655,000)	\$ 129,492,747
Government Center South				
Series 1990C	\$ 18,063,800	\$ 7,089,520	\$ -	\$ 7,089,520
Series 1990D	110,675,000	106,680,000	(815,000)	105,865,000
Series 1993C	<u>28,440,000</u>	<u>14,050,000</u>	<u>(4,165,000)</u>	<u>9,885,000</u>
Subtotal	\$ 157,178,800	\$ 127,812,520	\$ (4,980,000)	\$ 122,839,520
Correctional Facilities				
Series 1995A	\$ 54,025,000	\$ 54,025,000	\$ (395,000)	\$ 53,630,000
Series 1995B	47,975,000	47,975,000	-	47,975,000
Series 1998A	<u>93,020,000</u>	<u>93,020,000</u>	<u>-</u>	<u>93,020,000</u>
Subtotal	\$ 195,020,000	\$ 195,020,000	\$ (395,000)	\$ 194,625,000
TOTAL SOBC	\$ 605,957,166	\$ 505,457,954	\$ (10,840,000)	\$ 494,617,954
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1988B	\$ 64,315,000	\$ 2,225,000	\$ (2,225,000)	\$ -
Series 1990A	72,498,391	55,178,391	-	55,178,381
Series 1992A	74,035,000	43,870,000	(1,970,000)	41,900,000
Series 1993A	193,531,298	172,026,298	-	172,026,298
Series 1996B	27,110,000	26,895,000	(225,000)	26,670,000
Series 1998A	<u>175,360,000</u>	<u>-</u>	<u>175,360,000</u>	<u>175,360,000</u>
Subtotal	\$ 606,849,689	\$ 300,194,689	\$ 170,940,000	\$ 471,134,689
Airport Facilities Bonds				
Series 1992A	\$ 201,320,000	\$ 65,395,000	\$ (3,905,000)	\$ 61,490,000
Series 1995A	29,720,000	29,720,000	(635,000)	29,085,000
Series 1996A	<u>137,790,000</u>	<u>137,790,000</u>	<u>-</u>	<u>137,790,000</u>
Subtotal	\$ 368,830,000	\$ 232,905,000	\$ (4,540,000)	\$ 228,365,000
Aviation Technology Bonds				
Series 1992A	\$ <u>11,630,000</u>	\$ <u>10,605,000</u>	\$ <u>-</u>	\$ <u>10,605,000</u>
Subtotal	\$ 11,630,000	\$ 10,605,000	\$ -	\$ 10,605,000
TOTAL ITFA	\$ 987,309,689	\$ 543,704,689	\$ 166,400,000	\$ 710,104,689

Recreational Development Commission				
Series 1994	\$ 19,285,000	\$ 19,105,000	\$ (130,000)	\$ 18,975,000
Series 1997	<u>6,600,000</u>	<u>6,600,000</u>	<u>(200,000)</u>	<u>6,400,000</u>
TOTAL IRDC	\$ 25,885,000	\$ 25,705,000	\$ (330,000)	\$ 25,375,000
Animal Disease & Diagnostic Laboratory				
Series 1998B	\$ 10,830,000	\$ 10,830,000	\$ (835,000)	\$ 9,995,000
TOTAL ADDL	\$ 10,830,000	\$ 10,830,000	\$ (835,000)	\$ 9,995,000
TOTAL - ALL BONDS	\$1,629,981,855	\$1,085,697,643	\$ 154,395,000	\$1,240,092,643

Source: State Budget Agency

Debt Service Schedule - Obligations Payable From Possible State Appropriations

Table 8 lists, by issuing agency, all principal and interest payments payable from possible State appropriations (not including debt that has been defeased) that are due in State Fiscal Years 1999-2002 and those scheduled thereafter until the bonds are retired.

Table 8
Scheduled Principal and Interest Payments
Payable From Possible State Appropriations

	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>Thereafter</u>
Issuer/Series					
State Office Building					
Government Center Parking Facilities					
Series 1990A	\$ 468,050	\$ 468,050	\$ 1,948,049	\$ 1,948,050	\$ 20,843,800
Series 1993A	<u>3,705,681</u>	<u>3,703,049</u>	<u>3,698,309</u>	<u>3,691,946</u>	<u>41,564,837</u>
Subtotal	\$ 4,173,731	\$ 4,171,099	\$ 5,646,358	\$ 5,639,996	\$ 62,408,637
Government Center North					
Series 1990B	\$ 1,451,880	\$ 1,451,880	\$ 1,451,880	\$ 6,041,880	\$ 69,967,320
Series 1993B	<u>8,633,319</u>	<u>8,626,584</u>	<u>8,615,564</u>	<u>8,611,016</u>	<u>119,716,092</u>
Subtotal	\$10,085,199	\$10,078,464	\$ 10,067,444	\$ 14,652,896	\$ 189,683,412
Government Center South					
Series 1990C	\$ 317,090	\$ 317,090	\$ 1,317,090	\$ 1,317,090	\$ 15,263,425
Series 1990D	7,965,683	11,754,090	11,740,443	11,726,760	132,857,474
Series 1993C	<u>4,750,103</u>	<u>876,443</u>	<u>879,053</u>	<u>875,280</u>	<u>12,205,590</u>
Subtotal	\$13,032,875	\$12,947,623	\$ 13,936,585	\$ 13,919,130	\$ 160,326,489
Correctional Facilities					
Series 1995A	\$ 3,322,944	\$ 3,320,830	\$ 3,322,130	\$ 3,326,769	\$ 46,392,263
Series 1995B	2,667,175	3,866,144	3,862,381	3,860,058	53,670,664
Series 1998A	<u>4,501,326</u>	<u>4,501,326</u>	<u>4,501,326</u>	<u>6,903,551</u>	<u>119,386,008</u>
Subtotal	\$10,491,445	\$11,688,300	\$ 11,685,838	\$ 14,090,378	\$ 219,448,934
TOTAL SOBC	\$37,783,250	\$38,885,486	\$ 41,336,225	\$ 48,302,400	\$ 631,867,472
Transportation Finance					
Highway Revenue Bonds					
Series 1990A	\$ 6,711,393	\$ 6,709,793	\$ 6,724,488	\$ 6,724,488	\$ 87,325,238
Series 1992A	4,817,573	4,818,454	4,807,510	4,800,445	63,507,890
Series 1993A	12,033,414	14,339,112	14,331,710	14,341,960	266,131,403

Series 1996B	1,597,481	1,593,095	1,592,985	1,592,080	31,706,543
Series 1998A(1)	<u>8,718,950</u>	<u>9,071,740</u>	<u>9,071,740</u>	<u>12,111,765</u>	<u>269,169,278</u>
Subtotal Highway	\$33,878,810	\$36,532,193	\$36,528,433	\$ 39,570,738	\$717,840,351
Airport Facilities Bonds					
Series 1992A	\$ 7,821,621	\$ 8,122,006	\$ 8,432,391	\$ 8,742,756	\$ 64,380,903
Series 1995A	2,244,005	2,287,715	2,329,305	2,376,240	40,476,760
Series 1996A	<u>7,480,470</u>	<u>7,480,470</u>	<u>7,480,470</u>	<u>8,204,983</u>	<u>206,063,733</u>
Subtotal AF	\$17,546,096	\$17,890,191	\$ 18,242,166	\$ 19,323,979	\$ 310,921,396
Aviation Technology Bonds					
Series 1992A	\$ <u>955,060</u>	\$ <u>954,955</u>	\$ <u>958,455</u>	\$ <u>955,375</u>	\$ <u>15,313,020</u>
TOTAL ITFA	\$52,379,967	\$55,377,340	\$ 55,729,054	\$ 59,850,091	\$1,044,074,766
Recreational Development Commission					
Series 1994	\$ 1,264,258	\$ 1,302,220	\$ 1,342,595	\$ 1,380,070	\$ 31,097,359
Series 1997	<u>537,400</u>	<u>529,150</u>	<u>525,390</u>	<u>526,043</u>	<u>8,838,598</u>
TOTAL IRDC	\$ 1,801,658	\$ 1,831,370	\$ 1,867,985	\$ 1,906,113	\$ 39,935,957
Animal Disease & Diagnostic Laboratory					
Series 1998B	\$ <u>1,381,435</u>	\$ <u>1,041,430</u>	\$ <u>1,041,783</u>	\$ <u>1,040,638</u>	\$ <u>7,980,000</u>
TOTAL ADDL	\$ 1,381,435	\$ 1,041,430	\$ 1,041,783	\$ 1,040,638	\$ 7,980,000
TOTAL – ALL BONDS	\$93,346,310	\$97,135,625	\$ 99,975,046	\$111,099,241	\$1,723,858,195

Note: Excludes principal and interest on refunded bonds.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. At \$210, the State's net tax-supported debt per capita ranks approximately 43rd among the states. On December 30, 1998, the median for all the states was \$505 and the mean was \$697. At .9%, Indiana has the lowest reported debt as a percent of personal income in the region and ranks approximately 43rd among all the states. On December 30, 1998, the median for all the states was 2.0% and the mean was 2.7%. Even with the issuance of new debt authorized by the General Assembly for the 2000-2001 biennium, the State expects to retain its low ranking among the states for net tax-supported debt. Governor O'Bannon has directed the creation of a comprehensive debt management plan to help insure that debt will continue to be issued and managed in a prudent manner. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the discussion period are reflected in the Table 9 shown below.

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Table 9
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income(1)</u>	<u>Outstanding Debt Subject to Appropriation</u>	<u>Debt/Capita</u>	<u>Debt/Income</u>
1993	5,700,243	\$112,701	\$ 1,001,051,854	\$ 175	0.9%
1994	5,741,540	119,665	1,030,787,646	179	0.9
1995	5,787,839	125,804	1,036,962,646	179	0.8
1996	5,828,090	131,906	1,119,537,646	192	0.8
1997	5,864,105	138,415	1,116,717,640	190	0.8
1998	5,899,000(2)	140,963(2)	1,240,092,643(3)	210	0.9

(1) Personal Income is expressed in millions of dollars.

(2) Preliminary.

(3) Outstanding debt is as of December 31, 1998.

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income; and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1997 General Assembly authorized the State Office Building Commission to issue additional bonds to finance: (1) Phase I of an additional medium security correctional facility for adult males in Miami County, Indiana (Phase I of the Miami Correctional Facility is expected to be available for use and occupancy on July 1, 1999); (2) an additional correctional facility for male juveniles near Pendleton, Indiana (Pendleton Juvenile Correctional Facility is under construction and is expected to be available for use and occupancy in the Fall of 2000); (3) a special needs facility to be converted from an existing State institution near New Castle, Indiana (construction has commenced on the New Castle Correctional Facility and is expected to be available for use and occupancy in late 2001); and (4) a new State Museum in Indianapolis. (Construction has commenced on the Museum. It is expected to be available for use and occupancy in the Summer of 2001.) The Commission is providing short-term, or construction, financing for these facilities through issuance and sale "Hoosier Notes." Initially, \$100.0 million aggregate principal amount of Hoosier Notes were authorized to be issued by the Commission, beginning in February 1998. The authorization was subsequently increased to \$150.0 million in January 1999.

The Commission is expected to refinance a portion of the Hoosier Notes used to finance construction of Phase I of the Miami Correctional Center through issuance and sale of additional bonds in July, 1999. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

The 1999 General Assembly authorized the Commission to issue additional bonds to finance: (1) Phase II of the Miami Correctional Facility and (2) an additional mental health facility. The Commission has not yet established construction time lines or plans of finance for these facilities.

In 1997, the General Assembly authorized the TFA to issue bonds for additional State highway projects. Over a three to four year period, the TFA is expected to issue approximately \$400.0 million aggregate principal amount of revenue bonds to finance projects designed to increase the capacity of State highways. The TFA issued the first series of bonds in the principal amount of \$175,360,000 on July 9, 1998.

Contingent Obligations

Certain State entities, including the Indiana Department of Transportation, Indiana Bond Bank, Indiana Recreational Development Commission and Indiana Development Finance Authority, have entered into lease agreements or issued obligations that, in certain circumstances, may include payment of State general funds. Such

payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority - Toll Road Financing. The TFA and its predecessors have issued revenue bonds ("Toll Road Bonds") to finance and refinance the construction and improvement of the 156-mile East-West toll road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing by bond series of the indebtedness of the TFA for Toll Road Financing, see "STATE INDEBTEDNESS—Debt Statement — Contingent Obligations."

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the "Toll Road Lease") with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days' written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department's obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS — Obligations Payable from Possible State Appropriations — Indiana Transportation Finance Authority - Highway Financing" and "Indiana Transportation Finance Authority - Aviation Financing."

Indiana Bond Bank. The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. To assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1,000.0 million plus (a) up to \$200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to \$30.0 million for certain qualified entities that operate as telephone cooperative corporations.

As of June 1, 1999, the Bond Bank had \$1,100,760,000 in bonds and notes outstanding, including \$445,175,000 in outstanding bonds that are eligible for reserve fund replacement, with an aggregate reserve fund requirement for such bonds of \$50,752,258. To see a listing by bond series of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see "STATE INDEBTEDNESS—Debt Statement - Contingent Obligations."

As of June 1, 1999, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels; however, on January 1, 1999, the Town of Claypool, Indiana (a borrower of \$328,000 aggregate principal amount of the Bond Bank's Special Program Pool, Series 1991F) failed to make payment of \$21,546.75, which payment was then made by the Bond Bank from available monies and thereafter such borrowing was restructured and the payment delinquency cured.

Development Finance Authority. The Indiana Development Finance Authority (the "Development Finance Authority"), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; and (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects.

The Development Finance Authority is permitted by law to issue revenue bonds to finance projects which serve these public purposes. The Development Finance Authority's revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority has issued many revenue bonds. Except as described below, the revenue bonds are not payable from State appropriations. The Development Finance Authority issued on May 25, 1995, \$21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the "Steel Dynamics Bonds"), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. As of January 1, 1999, \$19,500,000 aggregate principal amount of the Steel Dynamics Bonds remain outstanding. In addition, the Development Finance Authority issued on June 27, 1996, \$14,345,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1996 (Envirotest Systems Corp. Project) (the "Envirotest Systems Bonds"), secured in part by a debt service reserve fund established exclusively for the Envirotest Systems Bonds. On October 16, 1998, Envirotest redeemed all of the \$12,945,000 aggregate principal amount of bonds outstanding. In addition, the Development Finance Authority issued \$33,100,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the "Qualitech Bonds"), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds, all of which revenue bonds remain outstanding as of January 1, 1999. Finally, the Development Finance Authority issued \$13,800,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (the "Heartland Steel Bonds") secured in part by a debt service reserve fund established exclusively for

the Heartland Steel Bonds, all of which revenue bonds remain outstanding as of January 1, 1999. The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Steel Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund. To see a listing by bond series of the outstanding Development Finance Authority bonds that are eligible for reserve fund replacement see Table 10 "Schedule of Long Term Debt -Contingent Obligations" shown below.

On March 22, 1999, Qualitech Steel Corporation, the corporation whose revenues are the primary source of repayment for the Qualitech Bonds filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. As of June 1, 1999, the bankruptcy proceedings were not concluded, however it is likely that, at some point in the future, the debt service reserve fund established for the Qualitech Bonds will not be fully funded and the Development Finance Authority will be required to seek an appropriation from the General Assembly to replenish such debt service reserve fund or to reimburse National City Bank of Indiana for unreimbursed draws under a letter of credit it issued to secure payment of the Qualitech Bonds.

Debt Statement - Contingent Obligations

Table 10 lists the long term debt classified as contingent obligations that was outstanding on January 1, 1999. Debt classified as a contingent obligation is debt for which the State has agreed to replenish a debt service reserve fund or seek an appropriation from the General Assembly to provide funds to meet certain obligations. See "STATE INDEBTEDNESS — Contingent Obligations."

Table 10
Schedule of Long Term Debt
Contingent Obligations
(as of January 1, 1999)

Issuer/Series	<u>Original Par Amount</u>	<u>Ending Balance 6/30/98</u>	<u>(Redeemed)/ Issued 2 Quarters FY 99</u>	<u>Ending Balance 01/01/99</u>
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	\$ 256,970,000	\$ 26,200,000	\$ -	\$ 26,200,000
Series 1987	184,745,000	51,480,000	(1,625,000)	49,855,000
Series 1993	76,075,000	71,165,000	(7,465,000)	63,700,000
Series 1996	<u>134,795,000</u>	<u>134,405,000</u>	<u>(540,000)</u>	<u>133,865,000</u>
Subtotal	\$ 652,585,000	\$ 283,250,000	\$ (9,630,000)	\$ 273,620,000
Indiana Bond Bank				
Special Program Pool				
Series 1985B	\$ 2,702,000	\$ 1,320,000	\$ (580,000)	\$ 740,000
Series 1986B	16,340,000	8,670,000	-	8,670,000
Series 1986C	25,715,000	3,480,000	(310,000)	3,170,000
Series 1986E	15,520,000	1,800,000	-	1,800,000
Series 1987A	9,210,000	6,145,000	(4,980,000)	1,165,000
Series 1989C	5,455,000	4,795,000	(110,000)	4,685,000
Series 1990A	8,795,000	6,755,000	-	6,755,000
Series 1990B	7,550,000	6,150,000	-	6,150,000
Series 1991A	38,655,000	34,520,000	(3,085,000)	31,435,000
Series 1991C	9,360,000	8,155,000	-	8,155,000
Series 1991F	15,330,000	13,805,000	(460,000)	13,345,000
Series 1992A (hospital)	21,000,000	17,515,000	-	17,515,000

Series 1992A	9,115,000	8,565,000	(175,000)	8,390,000
Series 1992B	15,735,000	12,140,000	(1,065,000)	11,075,000
Series 1993A	7,975,000	7,195,000	-	7,195,000
Series 1993B	14,915,000	14,915,000	-	14,915,000
Series 1994B	8,475,000	7,850,000	(30,000)	7,820,000
Series 1995A	4,540,000	4,300,000	-	4,300,000
Series 1995B	13,280,000	12,710,000	-	12,710,000
Series 1997A	6,295,000	6,235,000	-	6,235,000
Series 1997B	22,855,000	22,855,000	-	22,855,000
Series 1997C	5,010,000	5,010,000	-	5,010,000
Series 1998A	<u>6,485,000</u>	<u>6,485,000</u>	-	<u>6,485,000</u>
Subtotal	\$ 290,312,000	\$ 221,370,000	\$ (10,795,000)	\$ 210,575,000
Special Loan Program				
Series 1988A	\$ 7,310,000	\$ 3,145,000	\$ -	\$ 3,145,000
Series 1988B	41,165,000	16,130,000	(6,695,000)	9,435,000
Series 1988C	7,175,000	3,600,000	(480,000)	3,120,000
Series 1989	<u>8,765,000</u>	<u>6,845,000</u>	-	<u>6,845,000</u>
Subtotal	\$ 64,415,000	\$ 29,720,000	\$ (7,175,000)	\$ 22,545,000
State Revolving Loan Fund				
Series 1993 Guarantee Revenue	\$ 85,505,000	\$ 77,890,000	\$ -	\$ 77,890,000
Series 1993 State Match	14,495,000	13,205,000	-	13,205,000
Series 1994 Guarantee Revenue	45,735,000	44,300,000	-	44,300,000
Series 1994 State Match	14,265,000	13,815,000	-	13,815,000
Series 1995 Guarantee Revenue	70,475,000	70,475,000	-	70,475,000
Series 1995 State Match	<u>9,525,000</u>	<u>9,525,000</u>	-	<u>9,525,000</u>
Subtotal	\$ 240,000,000	\$ 229,210,000	\$ -	\$ 229,210,000
HELP Program				
Series 1995A	\$ <u>4,645,000</u>	\$ <u>1,430,000</u>	\$ <u>(630,000)</u>	\$ <u>800,000</u>
Subtotal	\$ 4,645,000	\$ 1,430,000	\$ (630,000)	\$ 800,000
Indiana Development Finance Authority				
Envirotest	\$ 14,345,000	\$ 12,945,000	\$ (12,945,000)	\$ -
Qualitech Steel	33,100,000	33,100,000	-	33,100,000
Steel Dynamics	21,500,000	20,300,000	(800,000)	19,500,000
Heartland Steel	<u>13,800,000</u>	<u>-</u>	<u>13,800,000</u>	<u>13,800,000</u>
Subtotal	\$ 82,745,000	\$ 66,345,000	\$ 55,000	\$ 66,400,000
TOTAL – ALL BONDS	\$1,334,602,000	\$ 825,040,000	\$ (39,645,000)	\$ 785,395,000

Source: State Budget Agency

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Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

<u>Entity</u>	<u>Statute</u>	<u>Purpose of Debt Issuance</u>
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-12-63 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority(1)	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority(2)	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc.(3)	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

(1) Originally the Indiana Hospital Equipment Financing Authority.

(2) Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

(3) A not-for-profit corporation authorized by the General Assembly.

STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to make periodically an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 1998 — Employee Retirement Systems and Plans.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With total assets of more than \$7,311.6 million on June 30, 1998, PERF is the State's largest pension fund and has essentially no unfunded liability. On June 30, 1998, there were 195,019 active and retired members participating in PERF from State and local government.

State employees constitute approximately 38% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible only for making contributions for State employee members. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. Each biennium the State appropriates an amount necessary for administration of PERF. Such appropriations are made from PERF earnings.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations.

Table 11 summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1997, and June 30, 1998.

Table 11
Indiana State Public Employees' Retirement Fund

	<u>June 30, 1997</u>	<u>June 30, 1998</u>
Normal Cost	\$ 74,650,986	\$ 71,687,600
Accrued Liability (Non-retired)(1)	1,465,185,818	1,491,985,623
Unfunded (Overfunded) Accrued Liability (Non-retired)(1)	17,853,583	(134,464,562)
Actuarial Present Value of All Accumulated Plan Benefits	801,616,750	848,439,552
Present Value of Vested Benefits	654,013,194	703,825,704
Non-Retired Participant Assets(2)	1,447,332,235	1,626,450,185

Notes: (1) There is no Unfunded Accrued Liability for retired members' benefits.

(2) Valued at cost.

Source: Actuarial Valuation, Public Employees' Retirement Fund of Indiana, June 30, 1997, and June 30, 1998.

In November 1996, a referendum amending the State constitution to permit public pension funds to invest in equities was passed. In May 1997, after enactment of House Enrolled Act 1036, the Board of Trustees of PERF began shifting the asset allocation of its investment portfolio. The target asset allocation of 60.0% equities and 40.0% fixed income securities is being achieved over a projected three-year transition period. It is expected that the targeted asset allocation will produce a more diversified, safer and higher yielding investment portfolio in the long run. At calendar year-end 1998, approximately 35% of the employer reserves under PERF's control have been shifted to equity investments.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers who reach a specific age or meet other eligibility qualifications. On June 30, 1998, TRF had 115,989 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the Rule of 85 for eligibility purposes.

Moneys to pay retirement benefits are provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As a result, the State accumulated a substantial unfunded accrued liability — \$7,513.8 million as of June 30, 1998 as shown in Table 12 below.

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Table 12
Indiana State Teachers' Retirement Fund
(in million of \$)

	<u>June 30, 1997</u>	<u>June 30, 1998</u>
Accrued Liability		
Retired	\$ 3,234.3	\$ 3,481.4
Non-retired	<u>7,810.4</u>	<u>\$ 8,298.8</u>
Total	\$ 11,044.7	\$ 11,780.2
Unfunded Accrued Liability		
Retired	\$ 1,743.4	\$ 1,722.4
Non-retired	<u>5,551.1</u>	<u>5,791.4</u>
Total	\$ 7,294.4	\$ 7,513.8

Source: Report of the Annual Actuarial Valuation as of June 30, 1998. Gabriel Roeder Smith & Co.

To aggressively address TRF's unfunded liability, the State:

1. Capped the growth of the benefit obligations by creating a new, actuarially sound plan for all new teachers hired after July 1, 1995. The "new" plan is funded by local school districts on a current basis using a level percent of payroll approach.
2. Created a new Pension Stabilization Fund dedicated to limiting growth in future General Fund appropriations for the pre-July 1995 plan to normal growth in General Fund revenues. The Pension Stabilization Fund has been funded through the following transfers and appropriations:

<u>Amount</u>	<u>Source</u>	<u>Time</u>	<u>Frequency</u>
\$439.7 million	Pension reserves	1995-1997 Biennium	One-time
\$250.0 million	General Fund appropriation	1995-1997 Biennium	One-time
\$150.0 million	General Fund appropriation	1997-1999 Biennium	One-time
\$250.0 million	General Fund appropriation	1999-2001 Biennium	One-time
\$30.0 million	Gaming Revenue appropriation	Annually, beginning FY 1996	Ongoing

The Teachers' Retirement Fund reports that the balance in the Pension Stabilization Fund on June 1, 1999 was approximately \$1,351.4 million (unaudited) from all sources.

3. Changed the State constitution to allow investment in equities, thereby increasing earnings estimates for plan assets. In August 1997, TRF's trustees adopted a new asset allocation plan, establishing a long-term goal of investing 52.0% of plan assets in equity investments. At calendar year-end 1998, approximately 31% of employer reserves were in equity investments.

Indiana Judges' Retirement System

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

Table 13 summarizes the results of the actuarial valuation of JRS on July 1, 1997, and July 1, 1998.

Table 13
Indiana Judges' Retirement System

	<u>June 30, 1997</u>	<u>June 30, 1998</u>
Normal Cost(1)	\$ 4,581,177	\$ 4,837,258
Accrued Liability	150,005,291	160,844,542
Unfunded Accrued Liability	80,648,195	81,250,352
Valuation Assets(2)	\$ 69,357,096	\$ 79,594,190
Number of Members		
Active and Inactive	321	339
Terminated Vested	19	17
Retired	<u>210</u>	<u>215</u>
Total	550	571

- (1) Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately \$1.6 million in 1997 and \$1.6 million in 1998 leave net employer normal cost of approximately \$4.8 million in 1998.
- (2) Based on cost or book value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1998.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit A-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 1997.

Other State Plans

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 1997, the plan had a total annual cost of approximately \$1.7 million and an unfunded actuarial liability of approximately \$12.1 million.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State has authorized additional appropriations of \$50.0 million during 1996 and \$25.0 million each year of the 1997-1999 biennial budget. According to the auditor's report on the component unit financial statements of the funds administered by the PERF Board of Trustees, as of June 30, 1996, and for the Fiscal Year then ended, approximately \$82.1 million was expended from the State's pension relief fund during Fiscal Year 1996, and on June 30, 1996, the State's pension relief fund had a balance of approximately \$401.8 million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 1997, the plan had a total annual cost of \$208,369, a cost per eligible active participant of \$1,751 and an unfunded actuarial liability of approximately \$1.3 million.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 1998, the fund had a total employer annual cost of \$390,283 and an unfunded actuarial liability of approximately \$4.2 million.

Local Plans

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana manufacturing has generally outperformed the nation during the 1990s. During expansion years such as 1995 and 1996, Indiana manufacturing employment represented 20% to 30% of net new employment while accounting for less than 10% in the United States as a whole. However, manufacturing jobs as a percentage of total non-farm employment for the State have decreased from 26.6% in 1988 to 23.2% in March, 1999. In 1998, manufacturing's share of net employment growth dropped under 1% while the nation's rate was under 5%. Since Indiana has a larger share of its employment in manufacturing than any other state, this sector is, and will continue to be, highly important to the State. However, it appears that Indiana is beginning to conform to the national trend of slow, stable or declining manufacturing employment.

Indiana continues to exceed the United States in net employment growth for the past ten year period. However, this trend will end in the year 2000 unless there is an improvement in Indiana's relatively weak performance of the last three years. Since 1995, United States employment has expanded by 8.2% while employment in Indiana has increased by 4.2% over the same period. Weaker growth in employment is becoming a national trend with only 17 states having growth rates of 3% or greater in 1998. Indiana's recent slow employment growth may be a reflection of tight labor markets as indicated by unemployment rates. Indiana's unemployment rate has continually improved relative to the nation over the past ten years.

Since 1988, exports in Indiana have outperformed the United States increasing by over 181%, compared to national growth of about 118% for the same period of time. Indiana exports were adversely affected by the downturn of Asian economies and the general global economic downturn, however, the impact on Indiana was not as severe as for the United States as a whole. Exports for the United States declined in 1998 by 1% while Indiana exports increased by 2%. Foreign investment and ownership in Indiana may have contributed to Indiana's 1998 export increase. For

instance, Indiana exports to Japan in 1998 increased by 20%. This may be attributable to connections between Japanese companies in Indiana and their parent corporations in Japan. The relatively big increase in exports to Japan helped offset sharp declines to Asian countries demonstrating the advantage of foreign investments to export growth.

Since 1994, growth in service sector employment in Indiana has averaged about 3% compared to growth of about 4% for the nation as a whole. However, in 1998, the service sector surpassed manufacturing employment in Indiana. The increase in exports and foreign investment and service sector employment is reflective of an increasingly diversified economy containing a mix of manufacturing, services and agriculture. Indiana's top five employment sectors comprise just 31% of the workforce, with health services the largest segment of private employment.

The State benefits from proximity to major markets and population centers — both national and international. Indiana can access those markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; in the south, through the Ohio and Mississippi rivers. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. Indiana is within a days drive of two-thirds of the population of the United States.

The cost of living in Indiana is relatively low. For the 4th quarter of 1998, Indiana's Total Cost of Living Composite Index as measured by the Indiana Department of Commerce was 94.9 as opposed to a national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Energy costs are relatively low in Indiana. Utility rates for all industrial customers are about 17% lower than the national average and residential energy bills are about 18% lower than the national average.

Indiana's economy evidences significant diversity in the types of goods it produces, as well as the markets to which it sells. Indiana ranks in the top five states for producing items ranging from steel, truck and bus bodies, wood office furniture, compact discs, pharmaceuticals, and surgical supplies to potato chips.

Table 14 compares changes in employment, population and personal income between Indiana and the United States since 1950.

Table 14
Summary Comparison of Indiana and the U.S.

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1998</u>
<u>Employment(1)</u>						
Indiana	1,272	1,431	1,849	2,130	2,522	2,917
% change	--	12.5%	29.2%	15.2%	18.4%	15.7%
U.S.	45,197	54,189	70,880	90,406	109,419	125,817
% change	--	19.9%	30.8%	27.6%	21.0%	15.0%
<u>Population(2)</u>						
Indiana	3,934	4,662	5,195	5,490	5,544	5,899
% change	--	18.5%	11.4%	5.7%	1.0%	6.4%
U.S.	151,326	179,323	203,302	226,546	248,710	270,299
% change	--	18.5%	13.4%	11.4%	9.8%	8.7%
<u>Personal Income(3)</u>						
Indiana	\$1,510	\$2,217	\$3,794	\$9,330	\$17,192	\$24,219
% change	--	46.8%	71.1%	145.9%	84.3%	40.9%
U.S.	\$1,492	\$2,276	\$4,077	\$10,062	\$19,191	\$26,412
% change	--	52.6%	79.1%	146.8%	90.7%	37.6%

(1) In thousands. Non-agricultural payroll employment only. See Table 21.

- (2) In thousands. With the exception of 1996, reflects the results of the census as of April 1 of each year. 1998 Figures are preliminary release dated 4/27/99.
- (3) Growth measured by dollars per capita. See Table 18. Figures are preliminary release dated 4/27/99.

Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics and Bureau of Economic Analysis.

Population

Indiana is the 14th most populous state in the United States. Nearly one in six Americans lives in Indiana or its contiguous states. After leveling off during the 1980's, the pace of Indiana's population growth has increased in recent years. Indiana's 1998 population was estimated at nearly 5.9 million, an increase of about 6.4% from the 1990 Census. From 1997 to 1998 Indiana's population grew by about 34,000 persons for a growth rate of about 0.6%. This compares with a growth rate of about 1.0% for the nation for the same time.

In each of the years since 1990, Indiana has experienced net in-migration; more people were entering the State than leaving it, reversing an out-migration trend than occurred in the 1980's. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1998.

Table 15
Net Population Migration
(in thousands)

<u>Year</u>	<u>Indiana</u>	<u>Illinois</u>	<u>Michigan</u>	<u>Ohio</u>	<u>Kentucky</u>
1991	11	-28	1	-4	3
1992	12	-7	9	7	19
1993	19	-12	-2	-2	24
1994	12	-18	2	-13	16
1995	16	-24	22	-13	16
1996	10	-26	27	-17	11
1997	6	-25	-6	-23	11
1998	4	-23	-13	-30	10
Cumulative	90	-163	40	-95	130

Source: U.S. Department of Commerce, Bureau of the Census

The capital and largest city in the State is Indianapolis. See Table 16. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas ("MSA") and one primary MSA situated within its borders.

Table 16
Population of Indiana Cities, MSAs

<u>City</u>	<u>Population (1996)</u>	<u>MSA</u>	<u>Population (1996)</u>
Indianapolis	746,737	Indianapolis MSA (1)	1,492,297
Fort Wayne	184,783	Fort Wayne MSA (2)	475,299
Evansville	123,456	Evansville-Henderson MSA (3)	288,735
Gary	110,975	Gary Primary MSA (4)	622,303
South Bend	102,100	South Bend MSA(5)	257,740

- (1) Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSA's.

- (2) Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.
- (3) Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.
- (4) Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.
- (5) St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

Source: U.S. Department of Commerce, Bureau of the Census.

As reflected in Table 17, the State's demographic profile in 1996 closely matched the nation's as a whole. Changes in the Indiana demographic profile since 1986 also match national trends, including a decline since 1986 in the portion of the population of school age and an increase in the portion of the population 65 years and older.

Table 17
Demographic Profile

<u>Age (Years)</u>	<u>Indiana</u>		<u>United States</u>	
	<u>1986</u>	<u>1996</u>	<u>1986</u>	<u>1996</u>
0-4	7.3%	7.0%	7.5%	7.3%
5-14	14.9	14.1	14.0	14.5
15-24	16.7	14.3	16.5	13.7
25-44	30.4	31.2	31.4	31.6
45-64	18.8	20.7	18.6	20.3
65 and older	12.0	12.6	12.1	12.8

Source: U.S. Department of Commerce, Bureau of the Census.

Personal Income

After narrowing the income gap between Indiana and the U.S. in the early 1990s, the gap again widened in 1995 through 1997 as per capita personal income in Indiana grew at a slower rate than the nation, both in terms of percentages and actual dollars. This contradicts conventional economic theory that incomes should increase more rapidly during times of low unemployment. In 1998, the growth in Indiana per capita personal income improved matching the national average growth rate of 4.4%. As a result, the average growth rate in per capita income for Indiana for the past ten years marginally exceeds the average growth rate for the nation as a whole.

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Table 18
Growth in Per Capita Personal Income

	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>
1987	14,324	15,945		
1988	15,231	17,038	6.3%	6.9%
1989	16,296	18,153	7.0	6.5
1990	17,167	19,156	5.3	5.5
1991	17,624	19,624	2.7	2.4
1992	18,763	20,546	6.5	4.7
1993	19,651	21,220	4.7	3.3
1994	20,734	22,056	5.5	3.9
1995	21,427	23,059	3.3	4.5
1996	22,234	24,164	3.8	4.8
1997	23,202	25,288	4.4	4.7
1998	24,219	26,412	4.4	4.4
Annual Average Growth			4.9%	4.7%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. All numbers for 1987 – 1997 are revised - revision release dated April, 1999. 1998 preliminary numbers - table release September, 1998.

Sector Distribution

Gross State and Domestic Product By Sector.

With an estimated 1996 Gross State Product of more than \$155.8 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a significantly faster pace than the nation's during the 1990's. See Table 19.

Table 19
Total Gross State and Domestic Product

	<u>In Millions of Current Dollars</u>			<u>Growth Rate</u>	
	<u>1980</u>	<u>1990</u>	<u>1996</u>	<u>1980 to 1990</u>	<u>1990 to 1996</u>
Indiana	\$ 58,423	\$ 109,552	\$ 155,797	87.5%	42.2%
U.S.	2,784,200	5,743,800	7,661,600	106.0	33.4
Indiana as % of U.S. GDP	2.1%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis release dated March 31, 1999. Survey of Current Business, February, 1999.

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined sharply in importance to the Indiana economy, accounting for less than 2.0% of the State's economic production in 1996. Conversely, the service sector has grown significantly as evidenced by the addition of more than 232,000 service sector jobs in the past decade. Manufacturing, and in particular durable goods manufacturing, has witnessed modest relative declines in its share of Gross State Product, but at 31.7% still remains the single largest component of the economy. See Table 20 and Table 21.

Table 20
Gross State Product and Gross Domestic Product

	1990 Gross State Product (in millions)	Percentage of total	1996 Gross State Product (in millions)	Percentage of total	1996 Gross Domestic Product (in billions)	Percentage of total
Agriculture	\$ 2,266	2.1%	\$ 2,735	1.8%	\$ 129.8	1.7%
Mining	709	0.7%	715	0.5%	113.6	1.5%
Construction	4,995	4.6%	7,228	4.6%	306.1	4.0%
Manufacturing	33,442	30.5%	49,338	31.7%	1,332.1	17.5%
Transportation & Utilities	9,863	9.0%	12,578	8.1%	645.3	8.5%
Wholesale Trade	6,321	5.8%	9,382	6.0%	516.8	6.8%
Retail Trade	10,129	9.3%	14,212	9.1%	667.9	8.7%
Finance, Insurance, Real Estate	13,768	12.6%	20,426	13.1%	1,448.5	19.0%
Services	16,093	14.7%	23,893	15.3%	1,479.6	19.4%
Government	11,968	10.9%	15,289	9.8%	996.3	13.1%
Total	\$ 109,552		\$ 155,797		\$ 7,636.0	

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
Totals may not add due to rounding.

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Table 21
The 50 Largest Public and 50 Largest Private Companies Headquartered in the State, Ranked by 1998 Revenue

Company	1998 Revenue (in millions)	Company	1998 Revenue (in millions)
Eli Lilly and Co. Inc.	\$9,236.8	Crossmann Communities Inc.	421.9
Conseco, Inc.	7,716.	*NIBCO Inc.	416.
Bindley Western	7,621.4	Duke Realty Investments Inc.	373.3
Cummins Engine, Inc.	6,266.	CTS Corp.	370.4
Lincoln National Corp.	6,083.7	Irwin Financial Corp.	366.1
*Anthem Inc.	5,900.	*Reilly Industries Inc.	350.**
NiSource Inc.	2,932.8	*R.O. Whitesell & Associates Inc.	339.
National Steel Corp.	2,848.	*Herff Jones Inc.	336.5
Arvin Industries Inc.	2,498.7	*Acordia Inc.	330.
Hillenbrand Industries Inc.	2,001.	*Jayco Corp.	319.
*Jordan Automotive Group	2,000.**	Consolidated Products	310.3
*Do It Best Corp.	1,906.	*Hoosier Energy REC Inc.	308.5
Guidant Corp.	1,897.	*H.H. Gregg Appliances Inc.	302.
*American United Life Insurance Co.	1,769.	*Johnson Oil Co. Inc.	302.
Brightpoint, Inc.	1,628.6	*Kiel Brothers Oil Co. Inc.	299.
Marsh Supermarkets Inc.	1,505.1	*Newmar Corp.	291.9
Simon Property Group Inc.	1,405.6	ITT Educational Service Inc.	291.4
Great Lakes Chemical Corp.	1,394.3	Shoe Carnival Inc.	280.2
Wabash National Corp.	1,292.3	*MacAllister Machinery Co Inc.	279.1
*Federal Home Loan Bank of Indpls	1,285.	*Hagerman Construction Corp.	278.
Excel Industries Inc.	1,106.1	Franklin Electric Co. Inc.	272.5
*Huber Hunt & Nichols Inc.	1,039.	CTB International Corp.	272.2
Kimball International Inc.	1,032.3	*Swiftly Oil Co. Inc.	267.
Amtran Inc.	919.4	*Buehler Foods Inc.	263.6
*LDI Ltd.	914.5	*Palmer Automotive Group	260.7
IPALCO Enterprises Inc.	821.3	*Interlock Industries Inc.	260.
Delco Remy	815.3	First Source Corp.	247.8
Coachmen Industries Inc.	756.	*Haynes International Inc.	246.9
*OmniSource Corp.	680.	Alltrista Corp.	244.1
Biomet Inc.	651.4	Paul Harris Stores Inc.	241.7
*Guide Corp.	626.	Chromcraft Revington Inc.	236.7
Skyline Corp.	623.4	*Rea Magnet Wire Co. Inc.	235.4
Lilly Industries Inc.	619.	Quality Dining Inc.	232.2
CNB Bancshares Inc.	603.1	*Steel Warehouse Co. Inc.	232.
*Bob Rohrman Auto Group	571.	*Burlington Motor Carriers Inc.	230.
SIG Corp.	557.1	Celadon Group Inc.	229.9
Symons International Group Inc.	553.2	*The Lafayette Life Insurance Co.	225.1
Goran Capital Inc.	546.8	Supreme Industries	223.7
*National Wine & Spirits Inc.	544.	*Stoops Freightliner-Quality Trailer Inc.	217.3
The Finish Line	522.6	*Banks Lumber Co. Inc.	191.9
Steel Dynamics Inc.	514.8	*F.A. Wilhelm Construction Co. Inc.	190.
*Atlas World Group Inc.	512.	*Wabash Valley Power Association	188.7
*Koch Enterprises Inc.	504.	*Traylor Bros. Inc.	186.7
Old National Bancorp	492.5	*United Feeds Inc.	185.
Indiana Energy Inc.	466.4	*GasAmerica Services Inc.	182.5
Tokheim Corp.	466.4	Auburn Foundry Inc.	150.
Indianapolis Life Insurance Co.	458.1	*Gene B. Glick Co. Inc.	136.4
*Kelley Automotive Group Inc.	455.7	*Monroe Guaranty Insurance Co.	135.
Patrick Industries Inc.	453.5	*Mays Chemical Co. Inc.	130.
*Farm Bureau Insurance Co.	424.7	*HPS Inc.	129.
** Indianapolis Business Journal estimate		* private company	

Source: Indianapolis Business Journal (May 17, 1999)

Employment by Sector.

Indiana experienced strong gains in non-agricultural employment between 1988 and 1998, adding 521,600 new jobs, a growth rate of 21.8. During this period, the types of employment by sector shifted, reflecting the fundamental changes taking place in the State's economy. See Table 22. In 1998, service sector employment represented 24.3% of all non-agricultural employment, which is slightly more than the 23.4% of jobs held by the manufacturing sector. The top five sectors of employment comprise less than one-third of the total workforce (31%).

Table 22
Annual Employment
Non-Agricultural
(in thousands)

	<u>1988</u>	<u>% of</u> <u>Total</u>	<u>1998</u>	<u>% of</u> <u>Total</u>	<u>% Change</u> <u>1988-1998</u>	<u>March</u> <u>1999</u>	<u>% of</u> <u>Total</u>
Wholesale and Retail Trade	568.2	23.7%	687.5	24.0%	21.0%	698.7	23.7
Manufacturing	636.5	26.6	683.6	23.4	7.4	686.5	23.3
Services	478.3	20.0	709.4	24.3	48.3	714.8	24.2
Government	354.5	14.8	399.3	13.7	12.6	406.6	13.8
Transportation and Public Utilities	123.9	5.2	144.1	4.9	16.3	146.3	5.0
Finance, Insurance, Real Estate	118.6	5.0	141.3	4.8	19.1	146.4	5.0
Construction	107.3	4.3	145.0	5.0	35.2	144.7	4.9
Mining	<u>8.2</u>	<u>0.3</u>	<u>6.9</u>	<u>0.2</u>	<u>-15.9</u>	<u>7.2</u>	<u>.2</u>
Total	2,395.5		2,917.1			2,951.2	

Note: Totals may not add as a result of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Indiana Department of Commerce Workforce Development Indiana Employment Review.

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Table 23
Total Private Employment

<u>Rank</u>	<u>Industry Sector</u>	<u>Private Employment</u>	<u>Percent of Private Employment</u>
1	Health Services (a)	228,800	9.0%
2	Eating and Drinking Places	199,400	7.8
3	Business Services (b)	141,500	5.6
4	Transportation, Equipment Mfg.	123,100	4.8
5	Durable Goods (Wholesale) (c)	96,800	3.8
6	Special Trade Contractors (d)	84,200	3.3
7	General Merchandise Stores	76,100	3.0
8	Industrial Machinery and Equipment Mfg.	76,100	3.0
9	Food Stores	68,700	2.7
10	Miscellaneous Retail (e)	68,400	2.7
	Other Private	1,381,400	54.3
	Total Private	2,544,500	100.0

Notes: as of First Quarter, 1998

- (a) includes hospitals and nursing facilities
- (b) advertising, building maintenance, data processing and temporary services
- (c) autos, furniture, machinery, electrical goods, hardware and lumber
- (d) plumbing, electrical, masonry, roofing, painting and carpentry
- (e) drugs, sporting goods, jewelry, books, liquor and specialty shops

Source: Bureau of Labor Statistics, Indiana Department of Workforce Development, Indiana Employment Review

Largest Employers

Table 24 lists employment at the one hundred largest Indiana companies, ranked by 1998 employees.

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Table 24
State Employment at the 100 Largest Public and Private Companies Headquartered in the State

Company	Indiana FTE Employees	Company	Indiana FTE Employees
Eli Lilly and Co. Inc.	11,800	*Kelley Automotive Group Inc.	600
Cummins Engine Inc.	7,000	*National Wine & Spirits Inc.	592
Kimball International Inc.	6,032	Shoe Carnival Inc.	581
NiSource Inc.	4,500	*Banks Lumber Co. Inc.	560
Consolidated Products	3,600	Brightpoint Inc.	559
Conseco Inc.	3,500	*Herff Jones Inc.	552
Wabash National Corp.	3,400	*Reilly Industries Inc.	540
Arvin Industries Inc.	3,211	*MacAllister Machinery Co. Inc.	529
Hillenbrand Industries Inc.	3,200	Paul Harris Stores Inc.	523
Lincoln National Corp.	3,200	*Gene B. Glick Co. Inc.	499
*Anthem Inc.	2,850	*Do It Best Corp.	488
Amtran Inc.	2,683	*Atlas World Group Inc.	466
*Guide Corp.	2,200	*Palmer Automotive Group	466
IPALCO Enterprises Inc.	2,020	Steel Dynamics Inc.	466
CNB Bancshares Inc.	2,014	Chromcraft Revington Inc.	450
Coachmen Industries Inc.	2,000	*Bob Rohrman Auto Group	450
*Burlington Motor Carriers Inc.	1,930	*Stoops Freightliner-Quality Trailer Inc.	450
Old National Bancorp	1,905	*Hoosier Energy REC Inc.	415
National Steel Corp.	1,900	ITT Educational Service Inc.	415
*Buehler Foods Inc.	1,691	*Hagerman Construction Corp.	410
*Jayco Corp.	1,615	Great Lakes Chemical Corp.	394
CTS Corp.	1,600	*Indianapolis Life Insurance Co.	389
Delco Remy	1,500	*Steel Warehouse Co. Inc.	385
Excel Industries Inc.	1,489	*Swiftly Oil Co. Inc.	378
*American United Life Insurance Co.	1,385	Irwin Financial Corp.	350
Simon Property Group Inc.	1,337	Duke Realty Investments Inc.	349
*Johnson Oil Co. Inc.	1,230	*Huber Hunt & Nichols Inc.	319
*Farm Bureau Insurance Co.	1,129	Crossman Communities Inc.	315
Franklin Electric Co. Inc.	1,100	*Monroe Guaranty Insurance Co.	315
Biomet Inc.	1,000	Bindley Western Industries Inc.	309
The Finish Line	990	Lilly Industries Inc.	300
*F.A. Wilhelm Construction Co. Inc.	950	Alltrista Corp.	293
SIG Corp.	948	Celadon Group Inc.	270
*NIBCO Inc.	925	*Interlock Industries Inc.	210
CTB International Corp.	900	*LDI Ltd.	210
First Source Corp.	890	*Acordia Inc.	200
Indiana Energy Inc.	890	*Jordan Automotive Group	200**
Supreme Industries	885	*HPS Inc.	190
Tokheim Corp.	875	*The Lafayette Life Insurance Co.	182
*H.H. Gregg Appliances Inc.	866	Goran Capital Inc.	180
*Auburn Foundry Inc.	840	Symons International Group Inc.	180
Patrick Industries Inc.	805	*Federal Home Loan Bank of Indpls	165
Quality Dining Inc.	800	*United Feeds Inc.	160
*Haynes International Inc.	750	*Mays Chemical Co. Inc.	121
*Koch Enterprises Inc.	750	Guidant Corp.	100
*Newmar Corp.	722	*Traylor Bros. Inc.	60
*Kiel Brothers Oil Inc.	706	*Wabash Valley Power Association	57
Skyline Corp.	700	*R.O. Whitesell & Associates Inc.	15
*Rea Magnet Wire Co. Inc.	695	* private company	
*OmniSource Corp.	680	** Indianapolis Business Journal	

Unemployment

Indiana has maintained lower annual unemployment rates than the nation since 1988. Unemployment rates for both Indiana and the nation continued to decline in 1998 and early into 1999. Higher levels of unemployment are concentrated in some rural areas of the State, and the Gary and Muncie metropolitan areas. However, the Gary and Muncie rates are still lower than the national average of about 4.5%. Table 25 sets out the unemployment rates for Indiana and the nation from 1988 to March, 1999.

Table 25
Unemployment Rate
(monthly average)

	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u> <u>as % of</u> <u>U.S.</u>
1988	5.3	5.5	96.4
1989	4.7	5.3	88.7
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.6	5.6	82.1
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999 (1)	2.9	4.3	67.4

(1) Data projected through March, 1999.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Exports

Between 1988 and 1997, both Indiana and the nation experienced strong export growth. During that period, Indiana exports increased by over 176%, exceeding overall national growth by 56%. See Table 26. However, in 1996 and 1997, annual national export growth exceeded Indiana's. This change did not appear to indicate weakness in Indiana's exports, but rather, larger changes in export markets. For example, the slower rate of growth in Indiana's exports between 1995 and 1996 can be attributed to a drop in primary metals exports to Asia. When the value of primary metals exports is excluded, the balance of Indiana exports rose 7.6% in 1996. Meanwhile, national export growth in 1997 was largely attributable to very strong growth in a relatively small number of states. Canada, Japan and the United Kingdom are Indiana's leading export destinations, although in 1997, exports to Mexico increased sharply by over 64% or nearly \$150 million.

For 1998, Indiana has experienced export growth of slightly more than 2% while exports for the United States decreased by about 1%. It is estimated that roughly 27.0% of Indiana's manufacturing workforce is employed in export related activity.

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Table 26
Indiana Exports

<u>Year</u>	<u>Exports in Millions of Dollars</u>		<u>Annual Percentage Change</u>		<u>Indiana Percentage of U.S. Exports</u>
	<u>Indiana</u>	<u>U.S.</u>	<u>Indiana</u>	<u>U.S.</u>	
1988	\$ 4,759	\$ 312,060	- %	- %	1.5%
1989	5,414	348,127	13.77	11.56	1.6
1990	6,359	392,975	17.46	12.88	1.6
1991	6,438	421,853	1.23	7.35	1.5
1992	6,837	447,471	6.21	6.07	1.5
1993	8,033	464,858	17.49	3.89	1.7
1994	9,261	512,416	15.29	10.23	1.8
1995	11,628	583,031	25.56	13.78	2.0
1996	12,039	622,827	3.53	6.83	1.9
1997	13,136	687,598	9.11	10.40	1.9
1998	13,403	680,474	2.03	(1.04)	2.0

Source: Massachusetts Institute for Social and Economic Research (MISER).

Transportation

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. In addition to an extensive network of highways and railroads, the State has strong air service for both passengers and freight and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

Highways. Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers with nearly two-thirds of the United States population accessible within a day's drive.

Railroads. Indiana is served by at least 39 freight railroads according to the Rail Division of the Indiana Department of Transportation. The State rail network provides, among other transportation services, access between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track.

Aviation. The State has 114 public use airports. Of these, five are primary commercial service airports, one is a commercial service airport, 11 are reliever airports and 97 are general aviation airports. The primary airports include one medium hub and two small hub airports and two nonhub airports.

Ports and Waterways. The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre along the Ohio River, near Jeffersonville, in south central Indiana.

Public Transportation. Indiana's 39 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 28.0 million passengers in 1996, a decrease of 0.3% from 1995. Transit system vehicles traveled 27.0

million miles in 1996, an increase of 9.0% from 1995. Total fare revenue collected in 1996 was \$26.7 million, an increase of 8.0% from 1995. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 29.0% in 1996, an increase of 93.0% from 1995. The State Public Mass Transportation Fund, which receives .8% of total State Sales and Use Taxes, accounted for \$21.8 million, or 23.0%, of total public transit operating revenues in 1996.

Education

Elementary and Secondary. Elementary and Secondary education in the State is provided by 294 school districts, which in the 1998-99 school year operated 1,187 elementary schools, 414 elementary/middle or junior high schools, 25 elementary/high schools, 104 middle or junior high schools/high schools, 73 middle or junior high schools, 257 high schools and 60 schools housing special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 1998-99 school year, accounted for 11.3% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 1998-99 school year was 988,114.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the State level, schools are administered by the State Board of Education, which is comprised of the Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor and the Superintendent of Public Instruction for four-year terms. At least four of the appointments must be actively employed in Indiana schools and hold valid teaching licenses. The State Board of Education is the State's policymaking and planning body for the public school system. The State Department of Education acts as the professional, technical and clerical staff for the Indiana State Board of Education.

Approximately 57,219 teachers and 9,260 other professional staff members were employed in the State public school system during the 1997-98 school year, resulting in a student teacher ratio (based on total enrollment, including special education programs) of 16.7:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was \$38,491 during the 1997-98 school year.

Higher Education. The Commission for Higher Education was established in 1971 to plan and coordinate the State's system of post-secondary education. The Commission develops long range plans, reviews budget requests of public post-secondary institutions and passes judgment on new degree programs of such institutions. The State university system is comprised of seven degree granting universities and colleges, as described below. Enrollment in all institutions in the fall of 1998 was 183,988 students (full-time equivalents).

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Public Post-Secondary Institutions

<u>Name</u>	<u>Programs Offered</u>	<u>FTE Enrollment</u>	<u>Campus Locations</u>
Ball State University	4-year	17,926	Muncie
Indiana State University	4-year	9,668	Terre Haute
Indiana University	4-year	69,568	Bloomington, Richmond, Kokomo, Gary, South Bend, New Albany, Indianapolis
Ivy Tech State College	2-year	22,633	Gary, East Chicago, South Bend, Elkhart, Valparaiso, Fort Wayne, Lafayette, Kokomo, Muncie, Anderson, Wabash Valley, Richmond, Columbus and Bloomington, Lawrenceburg, Evansville, Sellersburg, Indianapolis
Purdue University	4-year	50,984	West Lafayette, Hammond, Michigan City, Fort Wayne, Westville, Calumet Region, Indianapolis
University of Southern Indiana	4-year	6,617	Evansville
Vincennes University	2-year	6,592	Vincennes, Jasper, Indianapolis

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LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of \$5 million.

In a lawsuit filed against the State on January 9, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in applicant's medical condition. After an appeal, the matter has been remanded to the trial court for further proceedings, where the matter is briefed and awaiting a decision. If unsuccessful in this litigation, the State would forfeit savings of up to \$30 million.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The State prevailed before two trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of \$5 million.

In 1998, an action pursuant to the Federal False Claims Act was filed in the U.S. District Court for the Southern District of Indiana challenging the way the State has administered funds for services for senior citizens pursuant to the Older Americans Act. Plaintiff is claiming that the State should return some \$4 million to \$6 million in funds to the federal government, pay attorney's fees and a "whistle-blower's" fee of 25 percent of the total recovery. This case is in discovery and a motion for summary judgment will be filed by the State by May, 1999.

The United States Environmental Protection Agency filed a lawsuit in the U.S. District Court for the Northern District of Indiana against the Hammond Sanitary District and eight of its users for violations of the Clean Water Act, among other things. The State was named as a defendant. Because of Indiana's interests in this case, which mirror those of the federal government, the State has attempted to realign itself and become a plaintiff. The federal trial court has rejected the State's attempted realignment, so the State has filed cross claims for the same violations of the Clean Water Act, as well as for additional State claims, against the other defendants. If the State is found jointly or severally liable, it would be potentially liable for more than \$10 million. This matter is currently set for trial in July 1999, with dispositive motion briefing underway in October 1998.

The State intends to vigorously defend each of the foregoing suits or other claims.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any. See "FINANCIAL RESULTS OF OPERATIONS." With respect to tort claims only, the State's liability is limited to \$300,000 for injury to or death of one person in any one occurrence, and \$5,000,000 for injury to or death of all persons in that occurrence.

**EXHIBIT A-1
TO
APPENDIX A**

**GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE STATE OF INDIANA
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
4TH FLOOR, ROOM E418
INDIANAPOLIS, INDIANA 46204-2765
(317) 232-2513

INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 1998. These general purpose financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of \$4,257.2 million and \$951.1 million, respectively, as of and for the year ended June 30, 1998. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. The reports represent 16.3% of special revenue fund assets, 100% of debt service fund assets, 94.7% of enterprise fund assets, 89% of internal service fund assets, and 100% of proprietary and governmental discretely presented component units assets.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The State of Indiana has included such disclosures in Note IV(C). Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State of Indiana's disclosures with respect to the year 2000 issue made in Note IV(C). Further, we do not provide assurance that the State of Indiana is or will be year 2000 ready, that the State of Indiana's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Indiana does business will be year 2000 ready.

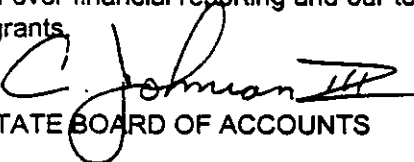
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 1998, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The State Employee Deferred Compensation Plan is reported on a December 31, 1997, year end. The Housing Finance Authority, a discretely presented component unit, also reports on a December 31, 1997, year end.

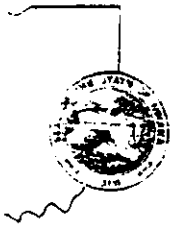
Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical Sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 1998, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

December 28, 1998


STATE BOARD OF ACCOUNTS

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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET

4TH FLOOR, ROOM E418

INDIANAPOLIS, INDIANA 46204-2765

(317) 232-2513

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Frank O'Bannon
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana as of and for the year ended June 30, 1998, and have issued our report thereon dated December 28, 1998, which was qualified because insufficient audit evidence exists to support the State of Indiana's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the State of Indiana's management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


STATE BOARD OF ACCOUNTS

December 28, 1998

State of Indiana
Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 1998
(amounts expressed in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and other debits:				
Assets:				
Cash, cash equivalents and investments - restricted	\$ -	\$ -	\$ -	\$ -
Cash, cash equivalents and investments - unrestricted	2,855,094	1,790,944	7,989	291,335
Cash and investments with fiscal agent	-	308,308	-	-
Securities lending collateral	2,189,592	257,915	-	232,623
Receivables:				
Taxes	519,713	165,291	-	1,444
Accounts	413	14,338	-	54
Grants	255	85,188	-	20
Notes	-	-	-	-
Interest	26,529	15,359	32	-
Member contributions	-	-	-	-
Employer contributions	-	-	-	-
Member loans	-	-	-	-
Interfund	2,756	43,534	-	-
Advances	-	500	-	2,312
Due from other funds	28,384	7,908	3,263	45,517
Intergovernmental loans	11,442	188,445	-	8,564
Student loans	-	-	-	-
Other	-	-	-	881
Inventory	-	-	-	-
Prepaid expenses/expenditures	-	-	-	-
Food stamp inventory	-	123,328	-	-
Other restricted assets:				
Construction in progress	-	-	-	-
Other	-	-	-	-
Bond issue costs - net of amortization	-	-	-	-
Property, plant and equipment	-	-	-	-
Less: Accumulated depreciation	-	-	-	-
Other assets	-	-	-	-
Other debits:				
Amount available for debt service fund	-	-	-	-
Amount available for net pension obligation	-	-	-	-
Amount to provided for retirement of long term debt	-	-	-	-
Total assets and other debits	\$ 5,632,178	\$ 3,001,056	\$ 11,284	\$ 580,730
Liabilities, equity and other credits:				
Liabilities:				
Accounts payable	\$ 102,057	\$ 372,234	\$ 2	\$ 6,993
Accrued interest payable	-	-	3,449	-
Salaries and benefits payable	38,947	34,786	-	-
Capital lease payable - current	-	-	-	-
Revenue bonds/notes payable - current	-	-	-	-
Pension benefits payable	-	-	-	-
Interfund payables	-	48,290	-	865
Advances	-	-	-	-
Due to other funds	3,147	28,527	-	-
Federal arbitrage liability	-	-	-	-
Tax refunds payable	25,841	8,333	-	-
Deferred revenue	31	142,525	-	-
Accrued prize liability - current	-	-	-	-
Accrued prize liability - long term	-	-	-	-
Accrued liability for compensated absences - current	2,564	2,428	-	-
Accrued liability for compensated absences - long term	-	-	-	-
Intergovernmental payable	-	321,912	-	-
Escheated property liability	-	-	-	-
Construction retention	-	-	-	-
Other payables	-	-	-	-
Securities lending collateral	2,189,592	257,915	-	232,623
Obligations under reverse repurchase agreements	-	-	-	-
Net pension obligation	-	-	-	-
Capital lease payable - long term	-	-	-	-
Revenue bonds/notes payable - long term	-	-	-	-
Total liabilities	2,359,979	1,214,950	3,451	240,481
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Net assets held in trust for pension benefits	-	-	-	-
Contributed Capital:				
Capital grants	-	-	-	-
Retained earnings:				
Reserved (see note III. H.)	-	-	-	-
Unreserved	-	-	-	-
Fund balances:				
Reserved (see note III. H.)	311,035	959,879	7,833	27,564
Unreserved:				
Designated for appropriations	1,182,378	23,862	-	278,910
Designated for allotments	1,200,987	(80,850)	-	15,723
Undesignated	587,799	883,015	-	20,052
Total equity and other credits	3,272,199	1,786,106	7,833	340,249
Total liabilities, equity and other credits	\$ 5,632,178	\$ 3,001,056	\$ 11,284	\$ 580,730

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government	Component Units			Totals Reporting Entity
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	(Memorandum Only)	Governmental	Proprietary	Colleges and Universities	(Memorandum Only)
\$ 64,404	\$ 111,284	\$ --	\$ --	\$ --	\$ 175,688	\$ --	\$ --	\$ --	\$ 175,688
278,821	36,500	15,374,513	--	--	20,835,198	21,828	673,020	2,235,813	23,585,857
--	--	2,103,313	--	--	308,308	--	--	--	308,308
--	--	--	--	--	4,783,443	--	91,949	279,379	5,154,771
--	--	--	--	--	688,448	--	--	--	688,448
16,752	5,566	15,079	--	--	32,282	637	--	139,951	192,790
--	--	169	--	--	85,632	--	--	--	85,632
--	--	--	--	--	--	1,382	650	--	2,032
804	694	140,066	--	--	183,484	100	38,850	16,881	239,315
--	--	49,258	--	--	49,258	--	--	--	49,258
--	--	68,588	--	--	68,588	--	--	--	68,588
--	--	8,494	--	--	8,494	--	--	--	8,494
965	--	--	--	--	47,155	--	--	--	47,155
--	404	--	--	--	3,296	--	--	--	3,296
--	7,660	15,240	--	--	105,970	--	--	--	105,970
--	--	283,188	--	--	489,619	--	938,114	--	1,427,733
--	--	--	--	--	--	--	244,375	118,663	381,038
--	--	--	--	--	861	--	540,277	60,763	601,901
5,184	12,287	--	--	--	17,451	--	--	31,269	48,720
533	4,161	25	--	--	4,719	--	--	19,483	24,202
--	--	--	--	--	123,328	--	--	--	123,328
1,618	30,785	--	--	--	32,403	--	--	31,423	63,826
11,104	--	--	--	--	11,104	--	--	--	11,104
2,905	11,456	--	--	--	14,061	--	17,923	740	32,724
903,680	572,376	638	1,466,200	--	2,842,894	--	1,084	5,150,469	7,794,447
(387,141)	(101,152)	(449)	--	--	(488,742)	--	(881)	(2,258,123)	(2,747,748)
--	--	--	--	--	--	--	2,896	--	2,896
--	--	--	--	7,833	7,833	--	--	--	7,833
--	--	--	--	3,889	3,889	--	--	--	3,889
--	--	--	--	648,288	648,288	--	--	--	648,288
\$ 599,209	\$ 882,101	\$ 18,058,102	\$ 1,466,200	\$ 659,990	\$ 30,700,850	\$ 23,747	\$ 2,548,247	\$ 5,824,711	\$ 39,097,555

\$ 27,985	\$ 15,427	\$ 937,005	\$ --	\$ --	\$ 1,481,783	\$ 2,435	\$ 1,075	\$ 358,984	\$ 1,824,177
--	30,548	--	--	--	33,997	--	24,368	20,511	78,876
286	797	133	--	--	72,929	--	--	22,852	85,581
107	921	--	--	--	1,028	--	--	39,633	40,661
--	10,840	--	--	--	10,840	--	--	1,215,270	1,226,110
--	--	10,579	--	--	10,579	--	--	--	10,579
--	--	--	--	--	47,155	--	--	--	47,155
2,796	500	--	--	--	3,296	--	--	--	3,296
55,517	8,437	10,342	--	--	105,970	--	--	--	105,970
--	689	--	--	--	689	--	789	--	1,478
--	--	--	--	--	33,974	--	--	--	33,974
2,908	1,320	566	--	--	147,350	--	541	55,155	203,044
48,329	--	--	--	--	48,329	--	--	--	48,329
51,192	--	--	--	--	51,192	--	--	--	51,192
14	55	13	--	--	5,074	--	--	45,435	50,509
256	1,309	279	--	93,484	88,328	--	--	--	85,328
--	--	5,814	--	--	327,728	--	--	--	327,728
--	--	3,969	--	--	3,969	--	--	--	3,969
--	1,468	--	--	--	1,468	--	--	--	1,468
12,219	11,424	--	--	--	23,643	1,575	1,049	--	26,267
--	--	2,103,313	--	--	4,783,443	--	91,949	279,379	5,154,771
--	--	--	--	--	--	--	--	172,250	172,250
361	219	--	--	3,889	3,889	--	--	--	3,889
257,585	556,157	--	--	4,413	4,903	--	--	--	4,903
459,535	640,111	3,072,013	--	558,204	1,371,946	--	1,945,808	--	3,317,754
--	--	--	--	659,990	8,650,510	4,010	2,085,579	2,209,249	12,929,348
--	--	--	1,466,200	--	1,466,200	--	--	1,833,422	3,299,822
--	--	13,145,228	--	--	13,145,228	--	--	--	13,145,228
7,871	19,849	--	--	--	27,720	--	--	--	27,720
30,374	484	--	--	--	30,858	--	--	--	30,858
101,429	31,657	--	--	--	133,086	--	482,668	--	615,754
--	--	283,188	--	--	1,589,479	2,838	--	687,568	2,279,885
--	--	3,617	--	--	1,466,767	--	--	--	1,466,767
--	--	101,736	--	--	1,257,796	--	--	986,973	2,244,769
--	--	1,452,340	--	--	2,933,208	16,899	--	107,499	3,057,604
139,674	51,990	14,986,080	1,466,200	--	22,050,340	19,737	482,668	3,615,462	26,168,207
\$ 599,209	\$ 882,101	\$ 18,058,102	\$ 1,466,200	\$ 659,990	\$ 30,700,850	\$ 23,747	\$ 2,548,247	\$ 5,824,711	\$ 39,097,555

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely
Presented Component Units
For the Fiscal Year Ended June 30, 1998
(amounts expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government (Memo- randum Only)	Governmental Fund Types Component Unit	Totals Reporting Entity (Memo- randum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust			
Revenues:								
Taxes	\$ 7,608,513	\$ 2,429,687	\$ --	\$ 13,710	\$ 246,606	\$ 10,298,516	\$ --	\$ 10,298,516
Licenses, permits and franchises	19,433	337,834	--	--	--	357,067	--	357,067
Current service charges	176,644	416,464	--	1,187	--	594,295	109	594,404
Interest	341,189	105,993	828	22,617	92,725	563,352	1,040	564,392
Sales/rents	589	57,708	--	--	--	58,277	26	58,303
Grants	11,844	3,644,774	--	10,380	14,019	3,680,797	--	3,680,797
Donations/escheats	--	32	--	--	22,809	22,841	--	22,841
Miscellaneous	7,603	185,880	--	75	118	193,676	71	193,747
Total revenues	8,165,595	7,178,172	828	47,949	376,277	15,768,821	1,246	15,770,067
Expenditures:								
Current:								
General government	1,998,033	1,479,232	--	45,278	12,595	3,535,138	--	3,535,138
Public safety	450,543	410,637	--	21,720	--	882,900	--	882,900
Health	108,717	159,466	--	3,884	--	272,087	--	272,087
Welfare	351,857	3,787,941	--	1,683	5,587	4,146,848	--	4,146,848
Conservation, culture and development	71,071	370,726	--	6,798	289,440	718,035	2,004	720,039
Education	4,175,369	458,050	--	9,130	358	4,642,907	--	4,642,907
Transportation	2,635	1,074,294	--	652	--	1,077,581	--	1,077,581
Miscellaneous	887	--	--	--	--	887	--	887
Debt service:								
Principal	--	--	14,805	--	--	14,805	--	14,805
Interest, finance fees	--	--	30,136	--	--	30,136	--	30,136
Other	--	--	84	--	--	84	--	84
Total expenditures	7,158,892	7,740,346	45,025	89,125	287,980	15,321,368	2,004	15,323,372
Excess (deficiency) of revenues over (under) expenditures	1,006,703	(562,174)	(44,197)	(41,176)	88,297	447,453	(758)	446,695
Other financing sources (uses):								
Operating transfers in (out)	(884,838)	690,915	42,516	128,521	(17,927)	159,187	--	159,187
Operating transfers in (out) - component unit	(7,500)	2,000	--	--	22,022	16,522	5,500	22,022
Proceeds from capital leases	854	1,583	--	--	--	2,437	--	2,437
Total other financing sources (uses)	(691,484)	694,498	42,516	128,521	4,095	178,146	5,500	183,646
Excess of revenues and other financing sources over (under) expenditures and other financing uses	315,219	132,324	(1,681)	87,345	92,392	625,599	4,742	630,341
Fund balances, July 1, as restated	2,956,980	1,653,782	9,514	252,904	1,350,587	6,223,767	14,995	6,238,762
Fund balances, June 30	\$ 3,272,199	\$ 1,786,106	\$ 7,833	\$ 340,249	\$ 1,442,979	\$ 6,849,366	\$ 19,737	\$ 6,869,103

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances -Budget and Actual
(Budgetary Basis Variances with GAAP)
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1998

(amounts expressed in thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:						
Taxes	\$ 6,500,851	\$ 7,570,513	\$ 1,069,662	\$ 2,412,851	\$ 2,388,235	\$ (24,616)
Licenses, permits and franchises	20,322	19,433	(889)	293,292	337,635	44,343
Current service charges	103,727	176,644	72,917	406,957	301,227	(105,730)
Interest	130,000	332,142	202,142	20,548	25,316	4,768
Sales	750	569	(181)	24,642	12,361	(12,281)
Grants	82,700	12,837	(69,863)	3,209,713	3,605,257	395,544
Donations/escheats	--	8	8	269	31	(238)
Other	2,500	7,594	5,094	167,210	275,797	108,587
Total revenues	6,840,850	8,119,740	1,278,890	6,535,482	6,945,859	410,377
Expenditures:						
Current						
General government	2,000,118	1,989,037	11,081	1,401,735	1,384,492	17,243
Public safety	531,272	450,778	80,494	500,008	379,793	120,215
Health	120,742	108,889	11,853	178,665	155,981	22,684
Welfare	720,004	353,857	366,347	3,839,940	3,705,105	134,835
Conservation, culture and development	136,963	70,892	66,071	519,228	452,196	67,032
Education	4,826,768	4,193,009	433,759	480,608	460,822	19,786
Transportation	5,774	2,598	3,176	1,069,200	1,063,505	5,695
Miscellaneous	137	136	1	--	--	--
Total expenditures	8,141,778	7,168,996	972,782	7,989,384	7,601,894	387,490
Excess of revenue over (under) expenditures	(1,300,928)	950,744	2,251,672	(1,453,902)	(656,035)	797,867
Other financing sources (uses):						
Operating transfers in (out)	(671,684)	(684,838)	(13,174)	442,468	688,432	245,964
Operating transfers in (out) - component units	(7,500)	(7,500)	--	2,000	2,000	--
Total other financing sources (uses)	(679,184)	(692,338)	(13,174)	444,468	690,432	245,964
Excess of revenues and other sources over (under) expenditures and other uses	\$ (1,980,092)	258,406	\$ 2,238,498	\$ (1,009,434)	34,397	\$ 1,043,831
Fund balances, July 1, as restated		2,126,555			1,253,660	
Fund balances, June 30		\$ 2,384,961			\$ 1,288,057	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenses and
Changes in Retained Earnings (or Equity)
All Proprietary Fund Types, Nonexpendable Trust Funds and
Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1998

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	Proprietary Fund Types	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust		Component Units	
Operating revenues:						
Sales/rents/premiums	\$ 889,792	\$ 79,414	\$ —	\$ 749,208	\$ —	\$ 749,208
Toll receipts	79,279	—	—	79,279	—	79,279
Charges for services	—	48,700	25,006	73,706	68,389	142,095
Statutory appropriations	—	1,919	—	1,919	—	1,919
Insurance premiums	—	79,587	—	79,587	—	79,587
Miscellaneous	1,069	1,156	—	2,225	—	2,225
Total operating revenues	750,140	210,776	25,006	985,922	68,389	1,054,311
Cost of sales	449,654	19,296	—	468,950	—	468,950
Gross Margin	300,486	191,480	25,006	516,972	68,389	585,361
Operating expenses:						
Personal services	31,859	16,439	—	48,298	56	48,354
Other general and administrative expense	33,751	46,119	20,274	100,144	19,761	119,905
Loss claims expense	1,692	—	—	1,692	—	1,692
Benefit payments	—	60,808	—	60,808	—	60,808
Disability payments	—	16,148	—	16,148	—	16,148
Death settlements	—	619	—	619	—	619
Medical expense reimbursement	—	278	—	278	—	278
Depreciation and amortization	11,532	17,975	—	29,507	3,798	33,305
Miscellaneous	69	—	—	69	861	930
Total operating expenses	78,903	158,386	20,274	257,563	24,476	282,039
Operating income (loss)	221,583	33,094	4,732	259,409	43,913	303,322
Nonoperating revenues (expenses):						
Interest and other investment income (expense)	(3,081)	(28,039)	1,202	(29,918)	6,553	(23,365)
Loss on disposition of assets	—	109	—	109	—	109
Miscellaneous	(3,643)	—	—	(3,643)	(623)	(4,266)
Total nonoperating revenues (expenses)	(6,724)	(27,930)	1,202	(33,452)	5,930	(27,522)
Income before operating transfers	214,859	5,164	5,934	225,957	49,843	275,800
Operating transfers in (out)	(191,519)	(9,092)	11,424	(189,187)	—	(189,187)
Operating transfers in (out) - component units	—	—	—	—	(22,022)	(22,022)
Net income (loss)	23,340	(3,928)	17,358	36,770	27,821	64,591
Retained earnings/fund balances, July 1, as restated	108,463	36,069	380,524	525,056	454,847	979,903
Retained earnings/fund balances, June 30	\$ 131,803	\$ 32,141	\$ 397,882	\$ 561,826	\$ 482,668	\$ 1,044,494

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and
Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1998
(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	Proprietary Fund Types	Totals Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust		Component Units	
Cash flows from operating activities:						
Operating income (loss)	\$ 221,583	\$ 33,094	\$ 4,732	\$ 259,409	\$ 43,913	\$ 303,322
Adjustments to reconcile operating income (loss) to net cash provided (used by operating activities):						
Depreciation/amortization expense	11,532	17,975	--	29,507	3,798	33,305
Other provisions	(4,350)	138	--	(4,212)	(12,368)	(18,578)
(Increase) decrease in accounts receivable	1,908	(49)	--	1,759	--	1,759
(Increase) decrease in intergovernmental receivable	--	--	--	--	(12,591)	(12,591)
(Increase) decrease in student loans	--	--	--	--	8,378	8,378
(Increase) decrease in other receivables	--	--	--	--	(117,598)	(117,598)
(Increase) decrease in due from other funds	--	(3,334)	--	(3,334)	--	(3,334)
(Increase) decrease in inventory	(125)	5,228	--	5,101	--	5,101
(Increase) decrease in prepaid expenses	124	2,533	--	2,657	--	2,657
(Increase) decrease in other assets	--	--	--	--	(394)	(394)
Increase (decrease) in health claims incurred	--	233	--	233	--	233
Increase (decrease) in benefits payable	--	1,502	--	1,502	--	1,502
Increase (decrease) in accounts payable	3,725	812	(27)	4,510	(1,705)	2,805
Increase (decrease) in deferred revenue	203	(3,860)	--	(3,657)	(2,458)	(8,113)
Increase (decrease) in salaries payable	15	52	--	67	--	67
Increase (decrease) in compensated absences	42	49	--	91	--	91
(Increase) decrease in due to other funds	12,870	8,422	--	21,292	--	21,292
Increase (decrease) in accrued prize liability	3,798	--	--	3,798	--	3,798
Increase (decrease) in federal arbitrage liability	--	573	--	573	--	573
Increase (decrease) in other payables	3,092	(19)	--	3,073	(748)	2,327
Net cash provided (used) by operating activities	254,315	63,347	4,705	322,367	(91,787)	230,600
Cash flows from noncapital financing activities:						
Operating transfers in (out)	(191,519)	(9,092)	11,424	(189,187)	(22,022)	(211,209)
Proceeds from intergovernmental loans	--	--	(81,017)	(81,017)	--	(81,017)
Repayment of intergovernmental loans	--	--	19,737	19,737	--	19,737
Cash received - advances	--	3,100	--	3,100	--	3,100
Cash paid - advances	--	(3,100)	--	(3,100)	--	(3,100)
Net cash provided (used) by noncapital financing activities	(191,519)	(9,092)	(29,856)	(230,467)	(22,022)	(252,489)
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	(10,477)	(43,459)	--	(53,938)	(71)	(54,007)
Proceeds from sale of fixed assets	--	536	--	536	--	536
Proceeds from issuance of long-term debt	--	52,384	--	52,384	527,011	579,375
Principal payments - capital leases	(92)	(862)	--	(954)	(448,126)	(449,080)
Principal payments - bonds/notes	(5,300)	(20,157)	--	(25,457)	--	(25,457)
Interest, debt issue costs	(14,788)	(31,018)	--	(45,806)	(107,600)	(153,406)
Net cash provided (used) by capital and related financing activities	(30,657)	(42,598)	--	(73,253)	(28,786)	(102,039)
Cash flows from investing activities:						
Proceeds from sale of investments	630,913	86,625	138,220	852,758	779,842	1,632,400
Purchase of investments	(858,388)	(97,483)	(116,581)	(870,412)	(868,040)	(1,568,452)
Interest received	9,991	4,083	1,202	15,276	106,421	120,697
Interest expense	--	--	(2)	(2)	--	(2)
Net cash provided (used) by investing activities	(15,484)	(7,755)	20,859	(2,380)	187,023	184,643
Net increase (decrease) in cash and cash equivalents	16,655	3,904	(4,292)	16,267	44,448	60,715
Cash and cash equivalents, July 1	117,887	38,057	33,625	187,549	91,851	279,400
Cash and cash equivalents, June 30	\$ 134,522	\$ 39,961	\$ 29,333	\$ 203,816	\$ 136,299	\$ 340,115
Reconciliation of cash, cash equivalents and investments:						
Cash and cash equivalents at end of year	\$ 134,522	\$ 39,961	\$ 29,333	\$ 203,816	\$ 136,299	\$ 340,115
Investments	208,703	107,823	85,383	401,909	536,721	938,630
Other funds presented on balance sheet (trust and agency)	--	--	15,259,797	15,259,797	--	15,259,797
Cash, cash equivalents and investments per balance sheet	\$ 343,225	\$ 147,784	\$ 15,374,313	\$ 15,885,322	\$ 873,020	\$ 16,538,542
Noncash investing, capital and financing activities:						
Fixed asset portion of contributed capital	\$ 12	\$ --	\$ --	\$ 12	\$ --	\$ 12
Addition of fixed asset through decrease in accounts payable	--	6,559	--	6,559	--	6,559

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Plan Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 1998

(amounts expressed in thousands)

Additions:	
Member contributions	\$ 212,877
Employers contributions	721,257
Investment income	1,431,863
Operating transfers in	30,000
Other	<u>2,644</u>
Total additions	<u>2,398,641</u>
Deductions:	
Pension benefits	696,788
Disability benefits	14,093
Survivor benefits	6,513
Funeral benefits	24
Withdrawal refunds	35,176
Administrative	<u>7,378</u>
Total deductions	<u>759,972</u>
Net increase (decrease)	1,638,669
Net assets held in trust for pension benefits, July 1, as restated	<u>11,506,559</u>
Net assets held in trust for pension benefits, June 30	<u>\$ 13,145,228</u>

The notes to the financial statements are an integral part of this statement.

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State of Indiana
Combined Statement of Changes in Fund Balances - Discretely Presented
Component Units - Colleges and Universities
All Fund Types
For the Year Ended June 30, 1998
(amounts expressed in thousands)

	Unrestricted Fund	Auxiliary Enterprise Fund	Restricted Fund	Loan Fund
Revenues and other additions :				
Current fund revenues	\$ 2,055,473	\$ 221,333	\$ -	\$ -
Grants, gifts and contracts	2,582	-	543,890	121,099
Appropriations	80,265	-	68,918	-
Additions to plant and facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
Endowment and investment income	6,191	830	8,972	2,184
Bond proceeds	-	-	-	-
Sales and services	-	-	9,474	169
Auxiliary services	10,074	258,827	-	-
Other additions	265	528	15,226	397
Total revenues and other additions	2,154,850	481,518	646,480	123,849
Expenditures and other deductions :				
Current fund expenditures	2,005,075	167,419	315,320	-
Restricted fund expenditures	-	-	25,431	-
Indirect costs recovered	-	-	62,930	-
Direct student loans issued	-	-	-	120,749
Loan cancellations and administration	-	-	-	559
Administration	-	-	-	130
Expended for plant facilities and disposals	-	-	10,496	-
Bond issued and issuance costs, retirements	-	-	-	-
Debt service requirements	-	-	-	-
Depreciation and amortization	-	-	-	-
Other deductions	577	278	227,739	131
Auxiliary services	-	281,616	-	-
Total expenditures and other deductions	2,005,652	449,313	641,916	121,569
Excess of revenues and other additions over (under) expenditures and other reductions	149,198	32,205	4,564	2,280
Transfers from/to other funds	(146,249)	(26,311)	7,134	219
Net increase/ (decrease) for the year	2,949	5,894	11,698	2,499
Fund balance, July 1, as restated	347,511	164,286	95,120	50,729
Fund balance, June 30	\$ 350,460	\$ 170,180	\$ 106,818	\$ 53,228

The notes to the financial statements are an integral part of this statement.

Endowment Fund	Unexpended Fund	Retirement of Indebtedness Fund	Renewal & Replacement Fund	Investment in Plant Fund	Totals
\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,276,806
9,281	10,091	459	--	3,141	690,543
--	85,715	--	3,958	--	218,856
--	782	--	--	270,237	271,019
--	88,608	5,303	--	147,926	241,837
121,024	19,490	2,276	29,648	--	190,615
--	30,430	78,853	--	--	109,283
--	54	--	--	--	9,697
--	--	--	--	--	268,901
441	2,866	20,825	990	5	41,543
130,746	218,036	107,716	34,596	421,309	4,319,100
5,922	--	--	--	--	2,493,736
--	--	--	--	--	25,431
--	--	--	--	--	62,930
--	--	--	--	--	120,749
--	--	--	--	--	559
984	95	569	13,140	--	14,918
--	194,593	--	10,821	8,573	224,483
--	--	7,521	--	1,559	9,080
--	2,064	198,100	--	195,967	396,131
--	--	--	--	174,948	174,948
2,256	13,259	1,248	20,581	9,399	275,468
--	--	--	--	--	281,616
9,162	210,011	207,438	44,542	390,446	4,080,049
121,584	8,025	(99,722)	(9,946)	30,863	239,051
(5,254)	38,262	93,340	38,678	(127)	(308)
118,330	46,287	(6,382)	28,732	30,736	238,743
577,497	80,631	45,894	212,365	1,802,686	3,376,719
<u>\$ 893,827</u>	<u>\$ 126,918</u>	<u>\$ 39,512</u>	<u>\$ 241,097</u>	<u>\$ 1,833,422</u>	<u>\$ 3,615,462</u>

**Combined Statement of Current Fund Revenues, Expenditures
and Changes in Fund Balances - Discretely Presented
Component Units - Colleges and Universities
For the Year Ended June 30, 1998**
(amounts expressed in thousands)

	Unrestricted Fund	Auxiliary Enterprise Fund	Restricted Fund	Totals
Revenues:				
Student tuitions and fees	\$ 786,594	\$ 5,475	\$ 2,617	\$ 794,686
Governmental appropriations	1,045,791	—	55,208	1,100,999
Federal, state and local grants and contracts	35,776	1,034	445,241	482,051
Auxiliary sales and services	73,892	473,551	8,908	556,351
Investment and endowment income	39,792	830	8,780	49,402
Other gifts and grants	12,979	—	38,339	51,318
Other revenues	159,311	549	12,434	172,294
Other additions	139	71	211	421
Total revenues	2,154,274	481,510	571,738	3,207,522
Expenditures:				
Instruction and departmental research activities	1,021,314	—	74,386	1,095,700
Auxiliary sales and services	12,692	449,035	190	461,917
Research	66,133	—	218,900	285,033
Academic support	265,356	—	9,656	275,012
Operation and maintenance of plant	216,432	—	84	216,516
Scholarships and fellowships	66,659	—	110,064	176,723
Public support	52,416	—	133,613	186,029
Student services	95,930	—	2,115	98,045
Student aid	9,412	—	28,591	38,003
Administrative and institutional support	198,731	—	2,263	200,994
Other expenses	—	572	—	572
Total expenditures	2,005,075	449,607	579,862	3,034,544
Excess of revenues over (under) expenditures	149,199	31,903	(8,124)	172,978
Other financing sources (uses):				
Excess of receipts over transfers	—	—	12,707	12,707
Net operating transfers in (out)	(146,250)	(26,009)	7,115	(165,144)
Total other financing sources (uses):	(146,250)	(26,009)	19,822	(152,437)
Excess of revenues and other sources Over (under) expenditures and other uses and the net effect of the discontinued operation	2,949	5,894	11,698	20,541
Fund balance, July 1, as restated	347,511	164,286	95,120	606,917
Fund balance, June 30	\$ 350,460	\$ 170,180	\$ 106,818	\$ 627,458

The notes to the financial statements are an integral part of this statement.

STATE OF INDIANA
Notes to the Financial Statements and Required Supplementary Information
June 30, 1998

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STATE OF INDIANA
Notes to the Financial Statements
June 30, 1998
(schedule amounts expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in three separate columns, one column for the governmental fund type, one for proprietary fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 1997 year end. The State Employee Deferred Compensation Plan which is part of the primary government, is also reported on a December 31, 1997, year end.

Blended Component Units.

The following are blended component units of the State of Indiana and are audited by outside auditors. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvements of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the governor to purchase education loans in the secondary market. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the \$100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities. Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance
Authority
101 W. Washington Street, Suite 1305E
Indianapolis, IN 46204

Recreational Development
Commission
Government Center South, W256
402 W. Washington Street
Indianapolis, IN 46204

State Lottery Commission of Indiana
Pan Am Plaza
201 S. Capitol, Suite 1100
Indianapolis, IN 46225

State Office Building Commission
Government Center South, W478
402 W. Washington Street
Indianapolis, IN 46204

Indiana Development Finance
Authority
One North Capitol, Suite 320
Indianapolis, IN 46204-2226

Secondary Market for Education
Loans, Inc.
8425 Woodfield Crossing Boulevard
Suite 401
Indianapolis, IN 46204

Board for Public Depositories
101 W. Washington St., Suite 1301E
Indianapolis, IN 46204

Indiana Bond Bank
115 W. Washington St., Suite 1175S
Indianapolis, IN 46204

Indiana Housing Finance Authority
115 West Washington Street
Suite 1350, South Tower
Indianapolis, IN 46204

Accounting Services
1062 Freehafer Hall
Purdue University
West Lafayette, IN 47907-1062

Richard W. Schmidt
Vice President - Business Affairs
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President
and Chief Financial Officer
Bryan Hall, Rm. 204
Indiana University
Bloomington, IN 47405-1202

Mark Husk
Director of Budgeting and
Accounting
Indiana Vocational Technical
College
Indianapolis, IN 46206-1763

Robert J. Stryzinski
Vice President-Financial
Services
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 103A
2600 University Avenue
Ball State University
Muncie, IN 47305

Office of the Vice President
for Planning and Budgets
Parsons Hall, RM. 223
Indiana State University
Terre Haute, IN 47809

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and

judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes collected within 30 days after the end of the fiscal year are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and assistance awards are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria is met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interests earned from the investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value in accordance with GASB 31 and 28. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value in accordance with GASB 25 and 28, respectively.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and

commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines, except for the State Police Retirement Fund, which is governed by the guidelines set forth in the preceding paragraphs. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The Wastewater Revolving Fund is held by a fiscal agent and included as a special revenue fund.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

The State has the following types of interfund transactions:

Quasi-external Transactions -- Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Reimbursements -- Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

Residual Equity Transfers -- Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.

Operating Transfers -- Legally authorized transfers other than residual equity transfers are reported as operating transfers.

Taxes collected during the month of July are accrued. These taxes include employee withholding and other individual income taxes, corporate income tax, sales tax, alcoholic beverage tax, motor fuel and motor carrier surcharge tax.

Due dates are as follows:

Sales, alcoholic beverage, gasoline and special fuel tax -- by the 20th day after the end of the month collected.

Corporate, motor fuel and motor carrier surcharge tax -- due on or before the last day of the month immediately following each quarter of the calendar year.

Employee withholding tax -- depending on the amount of total withholding, due by the 20th day after the end of the month or quarterly.

Individual income tax -- estimates due by the 15th of the month immediately following each quarter or the calendar year.

Tax refunds paid during the month of July are accrued as taxes payable as they are paid from current assets. These include individual, corporate and sales tax.

The State of Indiana does not collect property taxes; these are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. Inventories and Prepaid Items

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain assets of the proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

Restricted assets of the State Office Building Commission are designated for construction or liquidation of revenue bonds payable. Certain assets of the Recreational Development Commission are restricted for construction. A portion of Lottery Commission assets are reserved for the prize pool of the Multi-State Lottery Association. Restricted Toll Road assets are held for future debt service, transportation improvements and construction.

5. Fixed Assets

Fixed assets used in governmental fund types with a cost of \$5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed

assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 cents per mile

6. *Compensated Absences*

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt

account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

7. Long-term Obligations

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

8. Fund Equity

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for Tuition Support—established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances—established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Advances Receivable—established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans—established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes—established to recognize that certain amounts have been set aside.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

9. Memorandum Only -- Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund (6590), the Transportation Finance Authority - Highway Revenue Bonds, and the Wastewater Revolving Fund. In addition there are various "Other Special Revenue Funds" excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. Those special revenue funds subject to legally adopted budgets are presented in the Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual. Those special revenue funds excluded from this schedule, as compared to the Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Funds, do not have legally adopted budgets. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The budgetary bill is enacted as the Appropriations Act which the Governor may veto, subject to legislative override. Except as specifically provided for in the Appropriations Act, appropriations or part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures in the fund centers.

Budgeted amounts are as adopted or amended by supplemental appropriations that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

B. Budget/GAAP Reconciliation

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

1. Revenues are recorded when they are earned (GAAP) as opposed to when cash is received (Budgetary).
2. Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (Budgetary).

Adjustments necessary to convert the results of operations at the end of the year on a budgetary basis to a GAAP basis are as follows:

	General	Special Revenue
Excess of revenues and other sources over (under) expenditures and other uses (budgetary basis)	\$ 258,406	\$ 34,397
Adjustments:		
To adjust revenues for accruals	45,855	6,852
To adjust expenditures for accruals	10,958	8,605
Non-budgeted funds	--	82,470
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)	<u>\$ 315,219</u>	<u>\$ 132,324</u>

C. Deficit Fund Equity

At June 30, 1998, various funds had deficit balances caused by cash overdrafts from pooled cash and investments; these deficits are reported as due to other funds. Other deficit balances are the result of accruals on the balance sheet.

Fund	Due to Other Funds	Accrual Deficit
Special Revenue Funds		
3500 - State and Federal Welfare Assistance	(6,689)
3520 - Title XX	(2,182)
3530 - Medicaid Assistance	(97,600)
3550 - Medicaid Administration	(1,653)
3590 - Bureau of Motor Vehicles Commission	(45,175)
3630 - Child Welfare Services	(65)
3720 - Vocational Rehabilitation Division	(1,091)	(2,125)
3750 - School Lunch	(64)	
3760 - Disability Determination Division	(1,023)	(175)
5250 - Food Service		(1,881)
Internal Service Funds		
State Police Health Insurance Fund		(393)
State Police Benefit Fund		(1,082)
State Employee Health Insurance Fund		(1,186)
Expendable Trust Funds		
6420 - Abandoned Property Fund		(3,788)
6730 - Employment Security Refunds		(358)
6740 - Employment Security Benefits	(2,567)	
6770 - Federal Benefit	(37)	

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments, and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterpart, or by its trust department or agent but not in the State's or unit's name.

Blended component units which are included in the financial statements as described in Section 1(A) account for \$304.7 million of the primary government's total investments included in these totals.

<u>Primary Government</u>				
	Category			Fair Value
	1	2	3	
Commercial paper				
Not on securities loan	\$ --	\$ 524,785	\$ 58,989	\$ 583,774
On securities	--	24,995	--	24,995
Corporate debt/equity securities				
Not on securities loan	5,992,255	88	623,163	6,615,506
On securities	--	234,047	--	234,047
Foreign bonds	5,280	--	--	5,280
Repurchase agreements				
Not on securities loan	674,200	160,024	622,392	1,456,616
On securities	--	421,027	--	421,027
US Treasury & agency obligations				
Not on securities loan	3,088,934	445,170	318,715	3,852,819
On securities	--	156,541	535,781	692,322
Mortgage securities	1,680,503	--	--	1,680,503
Bankers acceptances	--	51,361	--	51,361
Totals	<u>\$ 11,441,172</u>	<u>\$ 2,018,038</u>	<u>\$ 2,159,040</u>	15,618,250
Investments held by broker-dealers under securities loans				
US Treasury & agency obligations				4,353,851
Corporate Bonds				177,716
Foreign Bonds				17,040
Securities lending short-term cash collateral investment pool				2,357,188
Amuity/investment contracts				383,641
Totals - primary government				<u>\$ 22,907,686</u>

The categories of investments for the Significant Discretely Presented Component Units is as follows:

<u>Significant Discretely Presented Component Units</u>				
	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Commercial paper	\$ 31,744	\$ --	\$ --	\$ 31,744
Corporate debt/equity securities				
Not on securities loan	237,679	--	--	237,679
On securities loan	3,073	--	--	3,073
Repurchase agreements	182,781	--	--	182,781
US Treasury & agency obligations				
Not on securities loan	643,671	16,170	72,048	731,889
On securities loan	7,603	--	--	7,603
Securities lending S-T non-cash collateral investment pool	24,309	--	--	24,309
Totals	<u>\$ 1,130,860</u>	<u>\$ 16,170</u>	<u>\$ 72,048</u>	1,219,078
Investments held by broker-dealers under securities loans				
Corporate bonds				9,318
US Treasury & agency obligations				263,744
Securities lending short-term cash collateral investment pool				279,378
Investments held by broker-dealers under reverse repurchase agreements				
US Treasury & agency obligations				172,250
Pooled mortgage loans				109,998
Totals - significant discretely presented component units				<u>\$ 2,053,766</u>

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund which allow no more than 40% be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to a borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 1998 is as follows:

Receivable Fund	Fund T	Payable Fund	Fund Type	Amount
Due From/To Other Funds				
Teachers Retirement	PT	PERF	PT	\$ 2,884
		State Lottery Commission	ENT	7,500
PERF	PT	Police & Firefighters' Pension	PT	708
		Excise & Conservation Pension	PT	149
		Judges Retirement	PT	170
		Teachers Retirement	PT	3,205
		Prosecuting Attorneys	PT	90
		Legislators' - Defined Benefit	PT	89
		State Employees' Death Benefits Fund	INT	52
		Public Employees' FICA (6540)	EXPT	20
		Pension Relief (6590)	SPRV	319
		Other	SPRV	54
Administration Services Revolving	INT	General Fund	GEN	1,711
		Teachers' Retirement	PT	48
		PERF	PT	33
		County Welfare Admin. (2100)	SPRV	840
		Motor Vehicle Highway (3010)	SPRV	383
		Fish & Wildlife (3420)	SPRV	20
		State & Federal Welfare Assistance (3500)	SPRV	1
		Title IV-D (3510)	SPRV	295
		Title XX (3520)	SPRV	1
		Welfare Work Incentive (3560)	SPRV	106
		BMV Commission(3590)	SPRV	31
		U.S. Public Health Service (3610)	SPRV	40
		Child Welfare Services (3630)	SPRV	150
		Criminal Justice Planning (3680)	SPRV	2
		Vocational Rehabilitation (3720)	SPRV	42
		Disability Determination (3760)	SPRV	32
		State Highway Department (4000)	SPRV	294
		Patients' Compensation (6020)	SPRV	2
		Employment Security (6710)	EXPT	491
		Institutional Industries (5150)	INT	4
		Other	SPRV	400
General Fund	GEN	Perkins Vocational Education (2330)	SPRV	708
		Medicaid Administration (3550)	SPRV	662
		Criminal Justice Planning (3680)	SPRV	243
		Vocational Rehabilitation Division (3720)	SPRV	1,091
		School Lunch (3750)	SPRV	1,626
		Disability Determination (3760)	SPRV	1,024
		Employment Security Administration (6710)	SPRV	2,882
		Other	SPRV	11,808
		Administration Services Revolving	INT	3,737
		Employment Security Benefit (6740)	EXPT	2,567
		Federal Benefit (6770)	EXPT	37
Industries and Farms	INT	General Fund	GEN	1,436
		County Welfare Administration (2100)	SPRV	66
		Motor Vehicle Highway (3010)	SPRV	1,014
		Fish & Wildlife (3420)	SPRV	17
		State & Federal Welfare Assistance (3500)	SPRV	3
		Vocational Rehabilitation Division (3720)	SPRV	1
		Disability Determination (3760)	SPRV	11
		Mental Institutions (3890)	SPRV	3
		State Highway Department (4000)	SPRV	76
		Other	SPRV	107
U.S. Public Health Service (3610)	SPRV	Wastewater Revolving Fund	SPRV	420
Build Indiana Fund (3880)	CP	State Lottery Commission	ENT	45,517
Pension Relief (6590)	SPRV	State Lottery Commission	ENT	2,500
		Police & Firefighters' Pension	PT	342
Motor Vehicle Highway Fund (3010)	SPRV	Administration Services Revolving	INT	4,071
Other	SPRV	Administration Services Revolving	INT	573
ITFA - Airport Facilities	DS	ITFA - Airport Facilities (Other)	SPRV	2,944
ITFA - Aviation Technology	DS	ITFA - Aviation Technology (Other)	SPRV	318
Total Due to/from other funds				<u>\$ 105,970</u>

Interfund receivable/payable:				
Toll Bridges	ENT	Interstate Bridge (6350)	CP	\$ 865
Motor Vehicle Highway (3010)	SPRV	BMV Commission(3590)	SPRV	43,146
Environmental Management (3240)	SPRV	Other	SPRV	388
General Fund	GEN	Other	SPRV	2,756
Total Interfund receivable/payable				<u>\$ 47,155</u>
Advances to/from other funds:				
Interstate Bridge	CP	Toll Bridges	ENT	\$ 2,312
Recreational Development Commission	INT	Inns & Concessions	ENT	484
Other	SPRV	Recreational Development Commission	INT	500
Total				<u>\$ 3,296</u>
<p> GEN = General fund CP = Capital projects EXPT = Expendable trust SPRV = Special revenue ENT = Enterprise AGY = Agency DS = Debt service INT = Internal service PT - Pension Trust </p>				

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General	Special Revenue	Capital Projects	Total
Sales taxes	\$ 167,925	\$ 114,173	\$ --	\$ 282,098
Individual income taxes	312,723	--	--	312,723
Corporate taxes	37,807	--	--	37,807
Motor fuel taxes	--	9,503	--	9,503
Gasoline taxes	--	40,640	--	40,640
Alcoholic beverage taxes	1,258	--	1,444	2,702
Motor carrier surcharge taxes	--	975	--	975
Total receivables	<u>\$ 519,713</u>	<u>\$ 165,291</u>	<u>\$ 1,444</u>	<u>\$ 686,448</u>
Tax refunds payable	<u>\$ 25,641</u>	<u>\$ 8,333</u>	<u>\$ --</u>	<u>\$ 33,974</u>

D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 1998, was as follows. Figures include assets with an individual cost of \$5,000 or more. Infrastructure assets are not included.

	Balance July 1, As Restated	Additions	Retirements	Balance June 30, 1998
Land	\$ 128,959	\$ 7	\$ 216	\$ 128,750
Buildings and improvements	1,030,577	1,701	23,282	1,008,996
Furniture, machinery and equipment	348,541	13,415	33,502	328,454
Total general fixed assets	<u>\$ 1,508,077</u>	<u>\$ 15,123</u>	<u>\$ 57,000</u>	<u>\$ 1,466,200</u>

The following is a summary of proprietary fund type fixed assets at June 30, 1998. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise Funds	Internal Service Funds
Buildings, land and improvements	\$ 560,497	\$ 537,341
Furniture, machinery and equipment	43,183	35,035
Less: accumulated depreciation	(387,141)	(101,152)
Construction in progress	1,618	30,785
Totals	<u>\$ 218,157</u>	<u>\$ 502,009</u>

Fixed assets of the significant discretely presented component units include \$2,441 million for Indiana University, less accumulated depreciation of \$1,123.5 million; \$1,443.3 million for Purdue University, less accumulated depreciation of \$627.8 million.

E. Leases

Operating Leases

The State leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases with aggregate payments of \$5,000 or more were \$29.4 million for the year ended June 30, 1998. The future minimum lease payments (excluding executory costs) for these leases are as follows:

Year Ending June 30,	Amount
1999	\$ 29,715
2000	24,701
2001	16,998
2002	9,195
2003	5,325
Thereafter	46,774
Total	<u>\$ 132,708</u>

Capital Leases

The State has entered into various lease agreements with aggregate payments of \$5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long term debt account group.

The assets acquired during the year through capital leases with aggregate payments of \$5,000 or more are as follows:

	General Fixed Assets	Proprietary Funds
Machinery and equipment	\$ 2,437	\$ 560
Less: Accumulated depreciation	—	112
Total	<u>\$ 2,437</u>	<u>\$ 448</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 1998, were as follows:

Year Ending June 30	General Long-term Debt	Proprietary Funds
1999	\$ 2,008	\$ 1,115
2000	1,225	328
2001	634	169
2002	320	133
2003	250	7
Thereafter	500	--
Total minimum lease payments	4,937	1,752
Less:		
Amount representing interest	524	144
Amount representing executory costs	--	--
Present value of net minimum lease payments	\$ 4,413	\$ 1,608

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling \$52.9 million, of which \$17 million represents interest; Indiana University's liability for capital leases is \$2.1 million, of which \$.5 million represents interest.

F. Long-term Debt

Revenue Bonds. Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Long-term debt of the proprietary funds represents revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E), compensated absence obligations, litigation liabilities, and net pension obligations.

General Long-Term Debt Account Group:

Indiana Transportation Finance Authority Highway Revenue Bonds – In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway

revenue bond projects. On March 26, 1993, the Authority refunded a portion of their 1988A & B Series Bonds. The amount of defeased debt still outstanding, but removed from the General Long-Term Debt Account Group as of June 30, 1998, was \$100.9 million.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of \$27,110,000 with interest rates from 3.85% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 1998, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was \$24.8 million.

Airport Facilities Revenue Bonds – On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of \$201.3 million. Additionally, Series 1995A parity bonds in the amount of \$29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of \$137,790,000 with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 1998 was \$127,035,000.

Aviation Technology Center Lease Bonds, Series A – On November 1, 1992, The Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of \$11.6 million. As of June 30, 1998, the bonds outstanding were \$10.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Proprietary Funds:

Indiana State Office Building Commission – Beginning in 1986, the State Office Building Commission has issued revenue bonds to provide funds for the design and construction of two state parking garages, the Indiana Government Center South, and the renovation of the Indiana Government Center North. Bonds have also been issued to fund the acquisition, design, construction and equipping of certain correctional facilities. These bonds will be repaid by rental charges paid by the State for use of the buildings. When the bonds are paid in full, the buildings and land will be deeded back to the State of Indiana.

On September 8, 1993, the Commission issued \$178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of \$93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The aggregate difference in debt service between the refunded debt and the refunding debt was \$895,507. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. The Commission obtained an economic gain of approximately \$6,100,000. At June 30, 1998, the Commission had a total of \$308.6 million defeased bonds outstanding.

Recreational Development Commission – In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and

Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns will repay the bond issues in 20 years; the buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption. As of June 30, 1998 the amount of defeased debt still outstanding was \$3.3 million.

On January 1, 1997, the Commission issued \$6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority Toll Roads - As a part of the Transportation Finance Authority, the East-West Toll Road component unit issued revenue refunding bonds in 1985 and 1987 for the early redemption of previous bond issues. Revenues from the toll road and restaurant concessions are used to repay these bond issues. At June 30, 1998, the principal amount of defeased debt outstanding was \$369.7 million.

In October 1993, the Authority issued \$76 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding 1985 Series. At June 30, 1998, the principal amount of defeased debt outstanding was \$67 million.

During October 1996, the Authority issued \$134.8 million of Series 1996 Revenue Refunding Bonds with interest rates from 3.9% to 6.5%. The proceeds were placed in trust for the purpose of generating resources for future debt service payments on the Series 1987 Bonds. At June 30, 1998, the amount of Series 1987 bonds outstanding but removed from the General Long Term Debt Account Group was \$127.1 million.

Revenue bonds outstanding at June 30, 1998 (less unamortized discount of \$36.5 million) are as follows.

Purpose	Interest Rates	Amount
<u>General Long-Term Debt Account Group</u>		
Highway construction and improvement	3.85-7.25%	\$ 314,694
Aviation technology center construction	4.90-6.50%	10,605
Airport facility construction	4.50-6.87%	232,905
<u>Proprietary Funds</u>		
Construction and renovation of state buildings	2.75-7.40%	\$ 489,900
Renovation of state parks	4.00-6.13%	24,734
Acquisition, construction of toll roads	3.90-9.50%	257,585

Revenue bond debt service requirements to maturity, including \$906.5 million of interest, are as follows.

Fiscal Year Ending June 30,	Proprietary Funds	General Long- Term Debt Account Group	Total
1999	\$ 62,762	\$ 45,965	\$ 108,727
2000	66,037	46,305	112,342
2001	66,071	46,657	112,728
2002	31,146	47,738	78,884
2003	34,128	48,121	82,249
Thereafter	987,759	711,157	1,698,916
Total	<u>\$ 1,247,903</u>	<u>\$ 945,943</u>	<u>\$ 2,193,846</u>

Changes in Long-Term Liabilities: During the year ended June 30, 1998, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance July 1, 1997 As Restated	Accretions & Additions	Reductions	Balance June 30, 1998
Compensated absences	\$ 90,204	\$ 55,856	\$ 52,576	\$ 93,484
Revenue bond debt	570,288	2,721	14,805	558,204
Litigation liabilities	487	--	487	--
Net pension obligation	--	3,889	--	3,889
Capital leases	5,733	2,437	3,757	4,413
Totals	<u>\$ 666,712</u>	<u>\$ 64,903</u>	<u>\$ 71,625</u>	<u>\$ 659,990</u>

The addition to the GLTDAG balance for revenue bond debt represents an accretion of principal on Capital Appreciation Bonds.

Discretely Presented Component Units:

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of \$1,425.1 million, and interest rates ranging from 3.35% to 13.12%. In February 1993, under the encouragement of the U.S. Department of Housing and Urban Development, the authority issued the 1993 Series A Multi-Unit Mortgage Program Bonds in the amount of \$8.9 million with interest rates ranging from 3.7% to 6.7% as a current refunding to refinance its 1982 Series A bonds.

During 1993 the Authority used three bank loans to redeem bonds in the 1983A, B, and C Series and the 1984A and B Series Single Family Mortgage Indenture Series; the principal amount of these loans totalled \$31.8 million.

The Authority exercised its option to redeem all of the 1980 Single Family Indenture and the 1984C Series Serial and Term bonds on January 1, 1995. There were no gains on the sale of securities directly associated with this optional redemption. The proceeds for this transaction were generated by a combination of cash and reserves held within the 1984C and excess cash reserved from uncommitted funds within the parity indenture.

During 1995, the Authority exercised its option to redeem all of the 1980 Single Family 1985 A and 1985 B serial and term bonds, with no gain on the transactions. The redemption was accomplished in conjunction with the issuance of Single Family Mortgage Revenue Serial and Term Bonds Series A, B, C and D totaling \$149.8 million, with interest rates from 3.85% to 6.6% and a maturity range of 32 years.

During 1997, the Authority redeemed the remaining outstanding bonds on the Single Family Mortgage Program Fund Series 1986 B and 1987 A and the GNMA Single Family Mortgage Program Fund Series 1990 A through optional redemptions and received a premium of \$146,000. The bond redemptions resulted in write-offs of unamortized discount and deferred debt issuance costs related to the redeemed bonds.

The Indiana Bond Bank -- The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. Total outstanding debt as of June 30, 1998, was \$979 million. The Bond Bank has, in the past, issued bonds to provide resources to be placed in trust for the payment of future debt services. In fiscal 1998, Special Program Bonds Series 1991B were defeased in conjunction with issuance of the Special Program Refunding Bonds Series 1998A in the amount of \$10.8 million with rates from 3.7% to 4.75%. The proceeds from the sale were placed in trust to satisfy the scheduled principal and interest payments of this series. The aggregate difference in debt service between the refunded debt and the refunding debt was \$1,260,000. No gain or loss was recognized on the transaction. At June 30, 1998, the total amount of defeased debt outstanding was \$86.8 million.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems. The outstanding long-term bonded indebtedness at June 30, 1998 was \$549.4 million with interest rates ranging from 2.75% to 7.75% for Indiana University and \$338.9 million at 2.6% to 9.5% for Purdue University.

On March 2, 1998, Indiana University defeased Housing Bonds in the amount of \$7,358,000. The aggregate difference in debt service between the refunded debt and the refunding debt was \$106,586. The defeasance resulted in an economic gain of \$61,734. The total amount of defeased debt outstanding at June 30, 1998 was \$100 million.

On January 26, 1998, Purdue University refunded Student Fee Bonds Series B and D with the issuance of Series N bonds in the amount of \$68,950,000 with interest rates from 3.55% to 5.5%. The proceeds from the sale were placed in an irrevocable trust to satisfy the scheduled principal and interest payments of this series. The aggregate difference in debt service between the refunded debt and the refunding debt was (\$7,520,612). The University obtained an economic gain of \$2,616,640 on the transaction. At June 30, 1998, the total amount of defeased debt still outstanding but removed from the balance sheet was \$153.7 million.

G. Contributed Capital

The changes in contributed capital for proprietary funds were as follows:

	Inns and Concessions	Institutional Industries	Administration Services Revolving	State Office Building Commission	Total
Beginning balance, contributed capital	\$ 7,858	\$ 8,878	\$ 990	\$ 9,981	\$ 27,707
Contributing sources:					
General fund	--	--	--	--	--
General fixed assets	13	--	--	--	13
Return of capital:	--	--	--	--	--
Ending balance, contributed capital	<u>\$ 7,871</u>	<u>\$ 8,878</u>	<u>\$ 990</u>	<u>\$ 9,981</u>	<u>\$ 27,720</u>

H. Reserves

Reserved fund balances/retained earnings are as follows:

Reserved/Restricted for:	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Non- Expendable Trust Fund	Total
Tuition support	\$ 240,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 240,000
Encumbrances	59,593	770,934	--	18,687	--	--	--	849,214
Advances	--	500	--	2,312	--	484	--	3,296
Intergovernmental loans	11,442	188,445	--	6,565	--	--	283,168	489,620
Debt service	--	--	7,833	--	--	--	--	7,833
Special purposes	--	--	--	--	30,374	--	--	30,374
	<u>\$ 311,035</u>	<u>\$ 959,879</u>	<u>\$ 7,833</u>	<u>\$ 27,564</u>	<u>\$ 30,374</u>	<u>\$ 484</u>	<u>\$ 283,168</u>	<u>\$ 1,620,337</u>

Significant discretely presented component units include a reserve for endowments of \$664.9 million for colleges and universities, and a reserve for encumbrances of \$2.8 million for the Development Finance Authority.

I. Restatements and Reclassifications

For the fiscal year ended June 30, 1998, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. The following schedule presents a summary of restated beginning balances by fund type. The majority of prior period adjustments were due to the implementation of GASB 31. The other prior period adjustments are errors not individually material to the financial statements.

	June 30, 1997 As Reported	Prior Period Adjustments	Balance July 1, 1997 As Restated
Fund Balances:			
General Fund	2,955,474	1,506	2,956,980
Special Revenue	1,650,552	3,230	1,653,782
Enterprise	109,099	(636)	108,463
Internal Service	34,198	1,871	36,069
Pension Trust	11,506,659	(100)	11,506,559
Agency	575,330	(5,837)	569,493

The Indiana Bond Bank's beginning retained earnings of \$58.5 million was restated from the prior year's \$6.7 million. Colleges and Universities beginning fund balance was restated from \$3,118.8 million to \$3,376.7 million. This restatement was due to prior period adjustments.

IV. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State's policy is generally not to purchase commercial insurance for the risk losses to which it is exposed. Instead, the State records as an expenditure any loss as the liability is incurred or replacement items are purchased. The State does purchase a limited amount of insurance to limit the exposure to errors, omissions, and theft by employees.

The State does have risk financing activity for the state employees' disability, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. Total claims liability incurred but not reported for the disability program is not reasonably estimable. The liabilities only include the amounts required for current payments on claims that have been reported. The claim liabilities for the two health insurance programs were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the minimum liability of disability payments. Claims expenses and liabilities were not reasonably estimable for death benefits.

	1998	1997
Unpaid Claims, Beginning of Year	\$ 9,688	\$ 9,751
Incurred Claims and Changes in Estimates	77,574	75,018
Claims Paid	(75,839)	(75,081)
Unpaid Claims, End of Year	<u>\$ 11,423</u>	<u>\$ 9,688</u>

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. At June 30, 1998, the combined estimated unpaid health care claims totaled \$26.8 million.

B. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 1998.

	Inns and Concessions	Toll Bridges	Toll Roads	State Lottery Commission	Malpractice Insurance Authority	Total
Operating revenue	\$ 14,921	\$ 796	\$ 84,953	\$ 648,162	\$ 1,309	\$ 750,141
Depreciation & Amortization	495	207	9,689	1,141	--	11,532
Operating income (loss)	26	203	35,737	186,338	(721)	221,583
Operating transfers (out)	--	--	--	(191,519)	--	(191,519)
Net income	114	186	18,903	3,959	179	23,341
Current capital contributions	13	--	--	--	--	13
Fixed asset additions	62,359	--	9,639	776	--	72,774
Net working capital	841	2,923	165,638	47,473	3,125	220,000
Total assets	12,739	3,666	392,076	175,457	15,271	599,209
Bonds payable	--	--	257,585	--	--	257,585
Total equity	8,086	1,317	117,591	9,556	3,125	139,675

C. Year 2000 Compliance

The year 2000 issue will affect the following systems which are an integral part of the State of Indiana's operations:

- Computer systems software
- Computer systems hardware
- Computer applications systems
- Telephone systems
- Security systems
- Prisoner detention or monitoring systems
- Heating and Cooling systems
- Traffic control systems
- Elevators
- Global Positioning System Receivers
- Interfaces with Vendor systems and information

The State of Indiana has committed approximately \$77 million in total for this project.

The following stages have been identified as necessary to implement a year 2000 compliant system.

The Awareness Stage encompasses establishing a budget and project plan for dealing with the year 2000 issue.

The Assessment Stage is when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for the year 2000 compliance or, through a risk analysis, identify only mission - critical systems to check for compliance.

The Remediation Stage is when the organization actually make changes to systems. This stage deals primarily with the technical issues of converting existing systems, or switching to complaint systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.

The Validation/Testing Stage is when the organization determines that no errors were introduced during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

Currently, the majority of the State of Indiana's mission critical systems are in the Remediation and Validation/Testing Stages.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State of Indiana is or will be year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that the parties with whom the State does business will be year 2000 ready.

D. Subsequent Events

In July 1998, the Indiana Bond Bank issued Advanced Funding Program Series 1998B bonds totaling \$3.1 million and State Wastewater Bonds Series 1998A totaling \$90 million.

The Indiana Transportation Finance Authority issued Highway Revenue Bonds Series 1998 on July 9, 1998 in the amount of \$175.4 million. These bonds will serve to finance the acquisition, construction and reconstruction of certain Indiana highway, roads, bridges and streets as the first phase of a major highway improvement project initiative known as the "Crossroads 2000 Program."

E. Contingencies and Commitments

Litigation. The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be in excess of \$15 million.

In a lawsuit filed against the State on January 19, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. The Court of Appeals affirmed the decision and a petition for rehearing is pending. If unsuccessful in this litigation, the State would forfeit savings of up to \$30 million.

Federal Grants. The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Construction Commitments. As of June 30, 1998, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had no commitments for unfinished highway construction projects.

F. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received. For those funds which contain only "other" revenues, amounts represent refunds of prior year expenditures. These refunds are accounted for as "other" revenues in order to prevent the improper supplementation of current year appropriations.

G. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The aggregate amount of loans authorized by the General Assembly totaled \$55.3 million; outstanding loans at the end of fiscal year 1997 totaled \$1.8 million. The Rainy Day Fund cash and investment balance at the end of fiscal year 1998 was \$493.1 million. Total outstanding loans were \$1.4 million, resulting in total assets of \$494.5 million.

H. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and right of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

The State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The State believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

In accordance with GASB Statement No. 2, plan balances have been reported at market value in the accompanying financial statements as an agency fund. These balances are as of December 31, 1997.

**I. Discretely Presented Component Units -- Condensed
Financial Statements**

**Balance Sheet -- Major and Aggregate Nonmajor Discretely Presented Component Units - Proprietary and
Colleges and Universities**

	Indiana University	Purdue University	Indiana Bond Bank	Housing Finance Authority	Nonmajor Component Units	Total
Assets						
Current assets	\$ 842,202	\$ 1,657,815	\$ 1,077,302	\$ 812,509	\$ 1,090,582	\$ 5,480,410
Property, plant and equipment	1,317,554	815,466	—	152	759,377	2,892,549
Total assets	<u>\$ 2,159,756</u>	<u>\$ 2,473,281</u>	<u>\$ 1,077,302</u>	<u>\$ 812,661</u>	<u>\$ 1,849,959</u>	<u>\$ 8,372,959</u>
Liabilities						
Current liabilities	\$ 276,738	\$ 647,409	\$ 22,738	\$ 2,216	\$ 164,649	\$ 1,113,750
Revenue bonds and notes payable	584,084	358,465	979,705	707,162	531,663	3,161,079
Total liabilities	<u>860,822</u>	<u>1,005,874</u>	<u>1,002,443</u>	<u>709,378</u>	<u>696,312</u>	<u>4,274,829</u>
Equity						
Investment in general fixed assets	840,954	472,310	—	—	520,158	1,833,422
Reserved fund balance	131,803	533,182	—	—	22,583	687,568
Unreserved fund balance	326,177	461,915	74,859	103,284	610,905	1,577,140
Total equity	<u>1,298,934</u>	<u>1,467,407</u>	<u>74,859</u>	<u>103,284</u>	<u>1,153,646</u>	<u>4,098,130</u>
Total liabilities and equity	<u>\$ 2,159,756</u>	<u>\$ 2,473,281</u>	<u>\$ 1,077,302</u>	<u>\$ 812,662</u>	<u>\$ 1,849,958</u>	<u>\$ 8,372,959</u>

**Statement of Changes in Fund Balances -- Major and Aggregate Nonmajor Discretely Presented Component Units -
Colleges and Universities**

	Indiana University	Purdue University	Nonmajor Universities	Totals
Revenues and other additions :				
Current fund revenues	\$ 990,697	\$ 735,938	\$ 550,171	\$ 2,276,806
Additions to plant and facilities	89,493	112,315	69,211	271,019
Retirement of indebtedness	68,001	145,856	27,980	241,837
Other additions	713,429	479,791	336,218	1,529,438
Total revenues and other additions	<u>1,861,620</u>	<u>1,473,900</u>	<u>983,580</u>	<u>4,319,100</u>
Expenditures and other deductions :				
Current fund expenditures	938,955	881,256	673,525	2,493,736
Expended for plant facilities and disposals	95,504	82,263	46,716	224,483
Bond issued and issuance costs, retiremen	—	7,575	1,505	9,080
Debt service requirements	89,940	240,915	65,276	396,131
Depreciation and amortization	64,190	63,965	46,793	174,948
Other deductions	652,931	51,921	76,819	781,671
Total expenditures and other deductions	<u>1,841,520</u>	<u>1,327,895</u>	<u>910,634</u>	<u>4,080,049</u>
Transfers from/to other funds	<u>—</u>	<u>(1)</u>	<u>(307)</u>	<u>(308)</u>
Net increase/ (decrease) for the year	<u>20,100</u>	<u>146,004</u>	<u>72,639</u>	<u>238,743</u>
Fund balance, July 1, as restated	<u>1,278,834</u>	<u>1,321,403</u>	<u>776,482</u>	<u>3,376,719</u>
Fund balance, June 30	<u>\$ 1,298,934</u>	<u>\$ 1,467,407</u>	<u>\$ 849,121</u>	<u>\$ 3,615,462</u>

Statement of Current Fund Revenues, Expenditures and Changes in Fund Balance -
Major and Aggregate Nonmajor Discretely Presented Component Units - Colleges and Universities

	Indiana University	Purdue University	Nonmajor Universities	Totals
Revenues:	\$ 1,470,600	\$ 940,699	\$ 796,223	\$ 3,207,522
Expenditures:	1,413,995	875,334	745,215	3,034,544
Excess of revenue over (under) expenditures:	56,605	65,365	51,008	172,978
Other financing sources (uses):	(59,376)	(51,346)	(41,715)	(152,437)
Excess of revenues and Other sources over (under) expenditures and other uses:	(2,771)	14,019	9,293	20,541
Fund balance, July 1, as restated	213,292	273,453	120,172	606,917
Fund balance, June 30	\$ 210,521	\$ 287,472	\$ 129,465	\$ 627,458

Statement of Revenues, Expenses and Changes in Retained Earnings/Equity -
Major and Aggregate Nonmajor Discretely Presented Component Units - Proprietary Fund

	Indiana Bond Bank	Housing Finance Authority	Nonmajor Component Units	Totals
Operating revenues	\$ 284	\$ 43,583	\$ 24,522	\$ 68,389
Operating expenses:				
Depreciation	2,848	922	28	3,798
Other	872	5,138	14,668	20,678
Total operating expenses	3,720	6,060	14,696	24,476
Nonoperating revenues (expenses):	19,820	(25,425)	11,534	5,929
Operating transfers in(out)	-	-	(22,021)	(22,021)
Net income	16,384	12,098	(661)	27,821
Retained earnings - beginning	58,475	91,186	305,186	454,847
Retained earnings - ending	\$ 74,859	\$ 103,284	\$ 304,525	\$ 482,668

J. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements as pension trust funds.

Public Employees' Retirement Fund

Plan Description The Public Employees' Retirement Fund (PERF) is an agent multiple-employer defined benefit plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 1997, the number of participating political subdivisions was 1032.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account which funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 6.6% of covered payroll.

State Teachers' Retirement Fund

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 1998, the number of participating employers was 326.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are

not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit payouts for each fiscal year. These appropriations include revenues from the State Lottery Commission.

State Police Retirement Fund

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single employer PERS, and is administered by the Indiana Department of State Police. Authority is granted to the Department by Indiana Code 10-1-1 to establish and operate an actuarially sound pension plan governed by a pension trust and to make the necessary annual contribution in order to prevent any deterioration in the actuarial status of the trust fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 21% of covered payroll.

1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 1997, the number of participating political subdivisions was 227.

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

Excise Police and Conservation Enforcement Officers' Retirement Fund

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund is a single employer defined benefit plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the Fund. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage. The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Judges' Retirement System

Plan Description The Judges' Retirement System is a multiple-employer cost sharing, defined benefit plan administered by the Public Employees' Retirement Fund Board of Trustees. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts; Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 3-13-10.1-1 et seq. applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

Prosecuting Attorneys' Retirement Fund

Plan Description The Prosecuting Attorneys' Retirement System is a single employer defined benefit plan Public Employees' Retirement Fund Board of Trustees. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System

Plan Description The Legislators' Retirement System is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a single employer defined benefit PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989.

The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The Legislators' Defined Contribution Plan provides retirement and survivor benefits.

Both plans are administered by the Public Employees' Retirement Fund Board of Trustees. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy For the Legislators' Defined Contribution Plan, each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to made from the biennial appropriation from the State's General Fund.

For the Legislators' Defined Benefit Plan, the amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Summary of Significant Accounting Policies

Contributions are recognized when received with accrual adjustments at June 30, 1998. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter

ended June 30, 1998, actual contributions received in July for work days in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 1998. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

	<u>PERF</u>		<u>STRF</u>		<u>SPRF</u>	<u>PFPF</u>	<u>ECRF</u>	<u>JRS</u>	<u>PARF</u>	<u>LRS</u>
	State	Municipal	Pre 7/1/95	Post 7/1/95						
Annual required contribution	79,101	100,780	484,671	23,589	9,251	57,726	1,676	11,576	275	170
Interest on net pension obligation	--	--	--	--	--	--	--	--	--	--
Adjustment to annual required contribution	--	--	--	--	--	--	--	--	--	--
Annual pension cost	79,101	100,780	484,671	23,589	9,251	57,726	1,676	11,576	275	170
Contributions made	81,585	107,719	*	*	6,644	57,452	1,724	10,659	184	201
Increase (decrease) in net pension obligation	(2,484)	(6,939)	*	*	2,607	274	(48)	917	91	(31)
Net pension obligation, beginning of year	--	--	--	--	--	--	--	--	--	--
Net pension obligation, end of year	(2,484)	(6,939)	*	*	2,607	274	(48)	917	91	(31)

PERF = Public Employees Retirement Fund
 STRF = State Teachers Retirement Fund
 SPRF = State Police Retirement Fund
 PFPF = 1977 Police Officers and Firefighters Retirement Fund
 ECRF = Excise Police and Conservation Enforcement Officers' Retirement Plan
 JRS = Judges Retirement System
 PARF = Prosecuting Attorneys Retirement Fund
 LRS = Legislator's Retirement System

* = Not Available

<u>Actuarial Assumptions</u>	<u>PERF</u>	<u>STRF</u>	<u>SPRF</u>	<u>PFPF</u>	<u>ECRF</u>	<u>JRS</u>	<u>PARF</u>	<u>LRS</u>
Investment rate of return	7.25%	7.50%	5.60%	6.75%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:								
Total	5.00%	5.00 - 10.60%	2.60%	5.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation		5.00%						
Cost of living adjustments	2.00%	Periodic	6.00%	3.00%	2.00%	N/A	N/A	2.00%

PERF = Public Employees Retirement Fund
 STRF = State Teachers Retirement Fund
 SPRF = State Police Retirement Fund
 PFPF = 1977 Police Officers and Firefighters Retirement
 ECRF = Excise Conservation Enforcement Officers' Retirement Plan
 JRS = Judges Retirement System
 PARF = Prosecuting Attorneys Retirement Fund
 LRS = Legislator's Retirement System

N/A = Not Applicable

	<u>PERF</u>	<u>STRF</u>	<u>SPRF</u>	<u>PFPF</u>	<u>ECRF</u>	<u>JRS</u>	<u>PARF</u>	<u>LRS</u>
Contribution rates:								
State	*	*	21.17%	21.60%	17.00%	45.00%	2.00%	5.00%
Plan members	3.00%	3.00%	6.00%	6.00%	3.00%	6.00%	6.00%	-
Actuarial valuation date	07/01/97	06/30/97	07/01/97	01/01/97	07/01/97	07/01/97	07/01/97	07/01/97
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Accrued Benefit
Amortization method	Straight-line	Level % Closed	Straight-line	Straight-line	Straight-line	Straight-line	Straight-line	Straight-line
Remaining amortization period	40 years	40 years	40 years	40 years	30 years	N/A	30 years	30 years
Asset valuation method	Market	Market	Cost/Market	Smoothed Market	Smoothed Market	Smoothed Market	Smoothed Market	Smoothed Market
PERF = Public Employees Retirement Fund ECRF = Excise Police and Conservation Enforcement Officers' Retirement Plan STRF = State Teachers Retirement Fund JRS = Judges Retirement System SPRF = State Police Retirement Fund PARF = Prosecuting Attorneys Retirement Fund PFPF = 1977 Police Officers and Firefighters Retirement Fund LRS = Legislator's Retirement System								

* = Not Available

	<u>PERF</u>		<u>STRF</u>		<u>SPRF</u>	<u>PFPF</u>	<u>ECRF</u>	<u>JRS</u>	<u>PARF</u>	<u>LRS</u>
	<u>State</u>	<u>Municipal</u>	<u>Pre 7/1/95</u>	<u>Post 7/1/95</u>						
<u>Year Ending 6/30/97</u>										
Annual pension cost (APC)	79,101.3	100,780.0	484,670.6	23,589.1	9,251.0	57,726.0	1,675.7	11,576.4	275.3	170.2
Percentage of APC contributed	103%	107%	*	*	71.8%	100%	103%	92%	67%	118%
Net pension obligation	(2,483.5)	(6,939.0)	N/A	N/A	2,607.0	274.0	(48,578.0)	917.8	90,416.0	(30,431.0)
<u>Year Ending 6/30/96</u>										
Annual pension cost (APC)	76,305.0	98,470.0	502,040.3	6,899.8	7,864.0	52,249.0	1,297.9	11,376.6	242,438.0	150.4
Percentage of APC contributed	104%	111%	*	*	92.2%	101%	124%	113%	72%	132%
Net pension obligation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>Year Ending 6/30/95</u>										
Annual pension cost (APC)	*	*	*	*	6,158.0	47,292.0	954,739.0	10,828.9	*	187,848.0
Percentage of APC contributed	*	*	*	*	60.8%	102%	103%	75%	*	106%
Net pension obligation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PERF = Public Employees Retirement Fund ECRF = Excise Conservation Enforcement Officers' Retirement Plan STRF = State Teachers Retirement Fund JRS = Judges Retirement System SPRF = State Police Retirement Fund PARF = Prosecuting Attorneys Retirement Fund PFPF = 1977 Police Officers and Firefighters Retirement LRS = Legislator's Retirement System										

N/A = Not Applicable

* = Not Available

Discretely Presented Component Units

Colleges and Universities

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana University and Purdue University contributed \$90 million for 11,962 participants for the year ended June 30, 1998.

Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 1998 are included in the disclosures for PERF.

REQUIRED SUPPLEMENTARY INFORMATION

	PERF		STRF		SPRF	PEPF	ECRF	JRC	PARF	LRS
	State	Municipal	Pre 7/1/95	Post 7/1/95						
Valuation Date: July 1, 1997										
Actuarial value of assets	1,447,332	1,699,981	3,678,103	72,036	240,880	909,519	26,324	69,357	5,970	3,834
Actuarial accrued liability (AAL)	1,465,189	1,661,044	10,868,423	176,237	279,575	820,929	38,460	150,005	9,504	5,429
Excess of assets over (unfunded) AAL	(17,857)	38,937	(7,190,320)	(104,201)	(38,695)	88,590	(12,136)	(80,648)	(3,534)	(1,595)
Funded ratio	99%	102%	34%	41%	86%	111%	68%	46%	63%	71%
Covered payroll	*	*	*	*	44,470	262,590	*	25,850	13,476	3,521
Excess (unfunded) AAL as a percentage of covered payroll	*	*	*	*	87%	34%	*	(312%)	(26%)	(45%)

Valuation Date: July 1, 1996										
Actuarial value of assets	1,335,189	1,549,376	3,242,032	20,587	229,113	785,123	24,079	56,759	4,874	3,548
Actuarial accrued liability (AAL)	1,358,810	1,568,069	10,283,174	47,614	267,122	704,367	32,087	147,488	9,163	5,430
Excess of assets over (unfunded) AAL	(23,621)	(18,693)	(7,041,142)	(27,027)	(38,009)	80,756	(8,008)	(90,729)	(4,289)	(1,882)
Funded ratio	98%	99%	32%	43%	86%	111%	75%	38%	53%	65%
Covered payroll	1,344,361	*	2,739,436	245,168	43,689	238,157	9,386	29,288	11,811	3,503
Excess (unfunded) AAL as a percentage of covered payroll	(2%)	*	(257%)	(11%)	89%	34%	(85%)	(310%)	(36%)	(54%)

Valuation Date: July 1, 1995										
Actuarial value of assets	1,249,865	1,457,029	2,983,579	N/A	215,820	670,084	21,699	48,884	*	3,213
Actuarial accrued liability (AAL)	1,245,331	1,480,781	9,674,536	N/A	244,334	595,806	27,209	136,985	*	5,387
Excess of assets over (unfunded) AAL	4,534	(23,752)	(6,690,957)	N/A	(28,514)	74,278	(5,510)	(88,101)	*	(2,174)
Funded ratio	100%	102%	31%	N/A	88%	112%	80%	36%	*	60%
Covered payroll	1,235,465	*	2,805,823	N/A	37,359	207,987	8,595	29,181	11,169	3,458
Excess (unfunded) AAL as a percentage of covered payroll	(0%)	*	(238%)	N/A	76%	36%	(64%)	(302%)	*	(63%)

PERF = Public Employees Retirement Fund
 STRF = State Teachers Retirement Fund
 SPRF = State Police Retirement Fund
 PEPF = 1977 Police Officers and Firefighters Retirement Fund
 ECRF = Excise Police and Conservation Enforcement Officers' Retirement Plan
 JRS = Judges Retirement System
 PARF = Prosecuting Attorneys Retirement Fund
 LRS = Legislator's Retirement System

* = Not Available
 N/A = Not Applicable

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS AND INDENTURE

SUMMARY OF CERTAIN PROVISIONS OF USE AND OCCUPANCY AGREEMENTS

The following is a brief summary of certain provisions of the Use and Occupancy Agreements. This summary does not purport to be comprehensive and is qualified in its entirety by reference to the Use and Occupancy Agreements. While Additional Use and Occupancy Agreements are required by the Indenture to contain certain of the provisions summarized herein, other provisions may differ from those summarized herein. In addition, the terms of the existing Use and Occupancy Agreements may be amended from time to time in any respect not inconsistent with the provisions required in the Indenture. Certain capitalized terms used under this caption are defined in Appendix C. See "SUMMARY OF CERTAIN PROVISIONS OF INDENTURE" and Appendix C, "DEFINITIONS."

Term, Renewal

Under each Use and Occupancy Agreement, the Commission has covenanted to construct and equip the Facility subject thereto and the Department of Administration has made certain undertakings (other than any obligation to make rental payments thereunder) as of the execution date. The Department of Administration's obligation to make rental payments for the Facility subject thereto (or any phase thereof) and the term of such Use and Occupancy Agreement will commence from and after the date of the Department of Administration's acceptance of a completion certificate for such Facility (or such portion thereof), in accordance with such Use and Occupancy Agreement, and will extend through 12:01 a.m. on July 1, of the next succeeding odd numbered year. The Department of Administration has the right to renew each Use and Occupancy Agreement for successive two-year periods thereafter, and the term of each Use and Occupancy Agreement will be deemed to have been renewed for each such two-year period unless the Department of Administration delivers a termination notice during a specified period prior to the end of any two-year term. In the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of any Facility when due, such Facility must be vacated and the Commission may take whatever action at law or in equity that may appear necessary or desirable to enforce its rights under the Use and Occupancy Agreement for such Facility.

Rentals

The Department of Administration is required by each Use and Occupancy Agreement to pay monthly rentals for the Facility subject thereto (or any phase thereof) to the Commission on or before the tenth day of each month succeeding those months during which such Facility (or such phase

thereof) is available for use and occupancy. Under the Act, required rental payments may not be unjust and unreasonable considering the value of the services and facilities thereby afforded. In determining "just and reasonable" amounts to be paid for the use and occupancy of a Facility, the Act specifically requires the Commission to impose and collect amounts that, in the aggregate, will be sufficient to: (a) pay the expenses of operation, maintenance and repair of the Facility, to the extent that such expenses are not otherwise provided; and (b) leave a balance of revenues from the Facility to pay the principal and interest (including any reserve or sinking funds) on bonds or loans as they become due and retire such obligations at or before maturity. Rental payments under each Use and Occupancy Agreement are required to be sufficient: (1) to provide for the payment of all expenses to be paid by the Commission in administering the Facility subject thereto (or any phase thereof) and in complying with the covenants of the Indenture, and all of the cost of insurance to be incurred as an expense of the Commission for such Facility (or any phase thereof); (2) to provide for the payment of Debt Service (as defined herein) on all Bonds allocable to such Facility (or any phase thereof); to provide for required deposits to any debt service reserve established under a Supplemental Indenture; and (3) to the extent authorized or permitted by law, to provide for costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility (or any phase thereof). In the event that such Facility (or any phase thereof) is damaged or destroyed so as to be rendered unfit for use and occupancy, rental payments will be appropriately abated and, so long as the Commission has complied with its obligation under the Use and Occupancy Agreement to obtain and maintain insurance on such Facility and the rental value thereof, the resulting rental deficiency will be satisfied, for at least twelve months, out of the proceeds from such insurance paid to and received by the Trustee for the period during which such Facility (or such phase thereof) is unfit for use and occupancy. Under each Use and Occupancy Agreement, the Department of Administration will be required to pay for all expenses of operation, maintenance and repair of the Facility subject thereto, other than expenses of the Commission in administering and maintaining insurance on such Facility. However, to the extent that funds are available in the Replacement Reserve Fund under the Indenture, the Commission is required to pay the costs of all major, non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility to maintain such Facility in good repair, working order and condition. Nothing in the Use and Occupancy Agreements requires the Commission to charge, or the Department of Administration to pay, rental payments in an amount which exceeds the amounts properly allocable to such Facility (or a phase thereof) as a just and reasonable lease rental considering the value of the services and the Facility (or any phase thereof) thereby afforded.

Insurance

Each Use and Occupancy Agreement requires the Commission to keep or cause the Facility subject thereto to be insured against loss or damage by fire and other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (a) the amount sufficient to provide for the payment or redemption of all Bonds allocable to such Facility then outstanding under the Indenture or (b) 100% of the full replacement cost of such Facility (subject to reasonable loss-deductible provisions). The Commission is also required to maintain in effect business interruption insurance against loss of rental income for a period of at least

twelve months due to the damage or destruction and interruption of the use of all or a part of such Facility for periods insured against under a standard extended coverage endorsement. In addition, the Commission is required to use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to person and property as are customary to be insured or reserved against for properties similar to such Facility.

Completion

The Commission agrees to use its best efforts to complete each Facility (and each phase thereof) as promptly as practicable in accordance with the plans and specifications. In the event the moneys in the Project Account and the Interest Account of the related Construction Fund (as defined in the Indenture) are not sufficient to pay in full the cost of completing the Acquisition of the Facility (or any phase thereof) and the interest on the allocable Bonds prior to the Commencement Date, the Commission agrees to use its best efforts to complete the Acquisition of the Facility (and each phase thereof), including but not limited to seeking the issuance of a Credit Note or Additional Bonds in an amount sufficient to pay the remaining Acquisition Costs, interest prior to completion, associated costs of issuance and required reserves.

Purchase, Assignment

Under each Use and Occupancy Agreement, the Department of Administration has an option to purchase the Facility subject thereto at a price equal to the amount required to provide for the payment or redemption of all outstanding Bonds allocable to such Facility, including all premiums payable on the redemption thereof and accrued and unpaid interest thereon, all in accordance with the Indenture, and to pay all expenses of the Commission attributable to such Facility.

The Department of Administration may not assign any interest in or any right under any Use and Occupancy Agreement. The Department of Administration is required to cause the Department of Correction to assign and allocate space in the Facility subject thereto. Further, the Department of Administration may, pursuant to a form of sublease agreement previously approved in writing by the Commission, sublet all or part of the Facility subject thereto to the Department of Correction or any other State agency. Without (a) the prior written consent of the Commission and (b) an opinion of nationally recognized bond counsel to the effect that a sublease of all or a portion of such Facility to, or use of all or a portion of such Facility by, a person (natural or otherwise) will not result in a loss of the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds, the Department of Administration will not be permitted to sublet all or any portion of such Facility to any such person, except for a sublease to the Department of Correction or any other State agency. The Commission may enter into an agreement with the Department of Administration, the Department of Correction or any State agency to manage the Facility subject thereto, but may not enter into a management agreement with any other person (natural or otherwise) unless, in the opinion of nationally recognized bond counsel, such agreement will not result in a loss of the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds.

Tax Covenants, Appropriations

Under each Use and Occupancy Agreement, the Department of Administration covenants not to take any action or fail to take any action with respect to the use of the Facility subject thereto that would result in loss of the exclusion from gross income pursuant to the Code of interest paid on any Tax-Exempt Bonds. The Department of Administration also covenants under each Use and Occupancy Agreement to use its best efforts to obtain appropriations from the General Assembly to meet its rental payment obligations and its operation, maintenance and repair obligations, both under such Use and Occupancy Agreement and under all other Use and Occupancy Agreements.

Remedies

Under each Use and Occupancy Agreement, if the Department of Administration (a) fails to pay any rent when due under such Use and Occupancy Agreement or (b) fails to observe any covenant under such Use and Occupancy Agreement for a period of 30 days following written notice of such violation, the Commission may terminate such Use and Occupancy Agreement and/or take whatever action at law or in equity may appear necessary or desirable to enforce its rights. However, in the event funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy of any Facility (or any phase thereof), such Facility (or any phase thereof) must be vacated. Notwithstanding anything in the preceding sentence to the contrary, the Department of Administration will be obligated, under each Use and Occupancy Agreement, to make any rental payment due under such Use and Occupancy Agreement for any period (i) during which the Facility (or any phase thereof) is available for use and occupancy and (ii) for which funds have been appropriated by the General Assembly and are available to pay when due any sum agreed to be paid for use and occupancy of such Facility. If the terms and conditions of any Use and Occupancy Agreement and the amounts to be paid thereunder for use and occupancy of the Facility subject thereto are shown to be unjust and unreasonable in light of the factors set forth in the Act, (a) the Commission and the Department of Administration will, if authorized or permitted by law, be required to reduce such amounts so as not to be unjust and unreasonable, or (b) , if such reduction is not authorized or permitted by law, the Department of Administration will not be obligated to continue to pay such amounts and will instead be required to vacate such Facility.

The Use and Occupancy Agreements contain no "cross-default" provisions. For example, an event of default under Use and Occupancy Agreement No. 1 will not constitute an event of default under Use and Occupancy Agreement No. 2 or Use and Occupancy Agreement No. 3, and *vice versa*. Likewise, an event of default under any Additional Use and Occupancy Agreement will not constitute an event of default under Use and Occupancy Agreement No. 1, Use and Occupancy Agreement No. 2 or Use and Occupancy Agreement No. 3.

SUMMARY OF CERTAIN PROVISIONS OF INDENTURE

The following is a summary of certain provisions contained in the Indenture. This summary does not purport to be comprehensive and is qualified in its entirety by reference to the Indenture. Certain capitalized terms used under this caption are defined in Appendix C. See Appendix C, "DEFINITIONS."

Creation of Funds, Accounts

The Indenture establishes the following Funds, Accounts and Subaccounts to be held by the Trustee with respect to Facility No. 3:

1. the Construction Fund for Facility No. 3 including:
 - (a) the Interest Account,
 - (b) the Credit Repayment Account,
 - (c) the Project Account,
 - (d) the Expense Account, and
 - (e) the Clearing Account;
2. the Revenue Fund for Facility No. 3;
3. the Operation and Maintenance Fund for Facility No. 3;
4. the Debt Service Fund for Facility No. 3, including a Series 1999A Account, an Earnings Account, an Earnings Account Subaccount A, and an Earnings Account Subaccount B;
5. the Replacement Reserve Fund for Facility No. 3; and
6. the Rebate Fund for Facility No. 3.

Similar Funds and Accounts are established under the Indenture for each Facility. In addition, a General Fund is created for the benefit of all Series of Bonds without regard to a particular Facility.

Deposit of Net Bond Proceeds, Revenues, Other Receipts

The Trustee will deposit the net proceeds from the sale of the 1999 Bonds to the following Funds, Accounts and Subaccounts as directed by the Commission on the date of issuance and sale of the 1999 Bonds:

- (a) to the Debt Service Fund for Facility No. 3 — Series 1999A Account, for the purpose of paying accrued interest on the 1999 Bonds due and payable on January 1, 2000;
- (b) to the Construction Fund for Facility No. 3 — Interest Account, for the purpose of paying interest on the 1999 Bonds prior to the time Facility No. 3 is available for use and occupancy;
- (c) to the Construction Fund for Facility No. 3 — Credit Repayment Account for the purpose of repaying the Miami Notes;
- (d) to the Construction Fund for Facility No. 3 — Project Account, for the purpose of paying the remaining Acquisition Costs of Facility No. 3; and
- (e) to the Construction Fund for Facility No. 3 — Expense Account, for the purpose of paying the costs of issuing the 1999 Bonds.

The Trustee will deposit all Gross Revenues related to a particular Facility under the Indenture promptly upon receipt into the related Revenue Fund under the Indenture and will thereupon transfer amounts therein to the following related funds in the following order of priority.

- (a) To the Operation and Maintenance Fund, such amounts, if any, estimated by the Commission pursuant to the Indenture to be required, after consideration of amounts available in such Fund, to provide for the payment of expenses of operation, maintenance and repair of a Facility required to be paid by the Commission, under the Use and Occupancy Agreements or otherwise (including expenses of managing and administering such Facility and in complying with the covenants of the Indenture), through the end of the month beginning on the first day of the month following the month in which the transfer was made;
- (b) To the Debt Service Fund, such amount, if any, required to bring the balance in such Fund to a level equal to the Accrued Debt Service that will accrue through the end of the first day of the month following the month in which the transfer was made;
- (c) To the Rebate Fund, the amount, if any, required to be deposited therein in accordance with the related Rebate Memoranda;

(d) To the debt service reserve, if any is established for a series of Bonds, the amount, if any, required under the related Supplemental Indenture to bring the balance in such reserve to a level sufficient to satisfy the debt service reserve requirement under such Supplemental Indenture (*no debt service reserve is established for or available to the 1999 Bonds*);

(e) To the Replacement Reserve Fund, an amount equal to 1/72 of the amount, after considering the amount on deposit in such Fund on the first day of the then-current Fiscal Year, as the Commission has annually estimated to be required under the Indenture to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for a Facility to be paid through the end of the sixth Fiscal Year following the end of the then-current Fiscal Year; and

(f) To the General Fund, such amounts, if any, remaining in the Revenue Fund after making all of the required transfers thereunder.

Construction Fund

In accordance with the Indenture, amounts held in the various accounts of the Construction Fund for each facility will be disbursed by the Trustee. From the related Project Account and Expense Account, the Trustee will pay the amounts required to finance the Acquisition Costs (hereinafter defined) of the related Facility, including costs relating to the issuance of the Bonds issued to finance such Facility. To request any payment for any of such purposes, the Commission must file a requisition with the Trustee, signed by an authorized officer of the Commission and stating the name and address of the person, firm, corporation or other entity to whom payment is due (which may be the Commission), the amount to be paid and the particular item of the cost to be paid. The requisition must also state that the cost of the obligation in the stated amount is a proper charge against the Project Account or the Expense Account which has not been previously paid.

The Indenture provides that, upon the receipt by the Trustee of a certificate of an authorized officer of the Commission, stating (1) the date of substantial completion of Acquisition of a Facility (or a phase thereof) and the amount if any, required in the opinion of such officer to be paid for any remaining Acquisition Costs of such Facility, and (2) that such Facility (or such phase thereof) has been substantially completed in accordance with the applicable plans and specifications, the balance in the Project Account and the Interest Account in excess of such amount, if any, stated in such certificate will be deposited in the related Clearing Account.

In addition, the Indenture provides for any Facility that, upon the filing of a certificate of a registered engineer experienced in prison construction matters, which is based on the then current status of construction of such Facility and on an examination of the contracts providing for the construction of such Facility, setting forth the amount necessary to complete the Acquisition of such Facility, including any reasonable or necessary contingencies, which certificate is approved by an authorized officer of the Commission, the balance of the Project Account for such Facility in excess

of the amount, if any, stated in such certificate will be deposited in the related Clearing Account. In the event such a certificate of estimated completion cost is delivered to the Trustee, the Commission will cause such certificate to be recertified within 60 days prior to each six month anniversary of the date of the initial certificate was delivered to the Trustee, revising the amount necessary to complete the Facility described therein, if necessary. If the amount recertified in any such certificate of estimated completion cost results in an increase in the amount stated in the initial certificate, then, to the extent available moneys are at any time thereafter held in the Clearing Account, the Commission will direct the Trustee to transfer such available moneys to the Project Account for the Facility described therein to provide for the completion of such Facility.

The Trustee shall transfer amounts from the Clearing Account for a Facility to the Fund or Account specified in the written instructions of an authorized officer of the Commission. Instructions for a transfer of amounts to a Fund or Account not related to such Facility shall include a certification that no deficiency exists in the Funds or Accounts related to such Facility and that such transfer does not effect the validity of the Bonds related to such Facility or the status of interest on any Tax-Exempt Bonds related to such Facility.

From the related Interest Account, the Trustee shall transfer amounts to the Paying Agent on or before the business day preceding each Interest Payment Date the amount required for payments of interest on the Bonds for the related Facility up to and including the Projected Commencement Date for such Facility (or the respective Projected Commencement Date for Acquisition of phases of such Facility). At the direction of the Commission, the Trustee will transfer from the Interest Account to the related Clearing Account any amounts remaining in such Interest Account after the Commencement Date for such Facility. To the extent funds in the related Interest Account are not sufficient to pay the interest on the related Bonds prior to the Commencement Date of such Facility (or a phase thereof), an Authorized Officer of the Commission shall direct the Trustee to pay such interest from such Facility's account of the Construction Fund specified in writing by an authorized officer of the Commission.

The Trustee shall transfer amounts from the related Credit Repayment Account at the direction of the Commission to repay that portion of borrowing under the Credit Note or under any other comparable obligation authorized under the Indenture and allocable to the Acquisition Costs of the related Facility (the Miami Notes in the case of Facility No. 3). On or before the payment of funds from the Credit Repayment Account, the Commission will deliver the following documents to the Trustee: (i) written instructions executed by an authorized officer of the Commission stating the payee, the amounts to be paid and the time and manner in which payment is to occur; (ii) if the Credit Note or such other obligation will be paid in full after such payment the Credit Note or such obligation; and (iii) if only a portion of the outstanding principal of and accrued interest on the Credit Note or such obligation will be paid by such payment, a written statement stating (a) prior to the receipt of the proposed payment the amount of the outstanding principal of and accrued interest on the Credit Note or such obligation on the proposed payment date and (b) after the receipt of the proposed payment the amount of the outstanding principal of and accrued interest on the Credit Note or such obligation on the proposed payment date. At the direction of the Commission, the Trustee

will transfer from the Credit Repayment Account to the related Clearing Account any amounts remaining in the Credit Repayment Account after that portion of the borrowing under the Credit Note or such obligation allocable to the Acquisition Costs of a particular Facility has been paid in full.

Operation, Maintenance Fund

Upon delivery to the Trustee of written instructions executed by an authorized officer of the Commission, amounts in the Operation and Maintenance Fund related to a Facility will be applied by or on behalf of the Commission to the payment of expenses of operation, maintenance and repair of the Facility to the extent required to be paid by the Commission pursuant to its obligations under the related Use and Occupancy Agreement or otherwise, including expenses of managing and administering the Facility and complying with the Indenture. Any amounts held in the Operation and Maintenance Fund are not available to be pledged or used for any other purpose, including payment of the related Bonds.

Debt Service Fund

The Indenture requires that out of the Debt Service Fund related to a Facility, the Trustee will disburse to the Paying Agent for the related Bonds (a) on or before the business day preceding each Interest Payment Date for any of the Bonds, the amount of interest payable on such date; (b) on or before the business day preceding each Principal Installment due date, the amount of the Principal Installment payable on such due date; and (c) on or before any redemption date for the related Bonds, the amount required for the payment of the redemption price, plus accrued interest to the redemption date. Such amounts will, in turn, be applied by such Paying Agent on and after the due dates thereof to pay principal and interest on such Bonds. The Trustee will also pay out of the Debt Service Fund the accrued interest included in the purchase price of the Bonds purchased for retirement.

Amounts accumulated in the Debt Service Fund related to a Facility for a sinking fund installment for the related Bonds (together with amounts accumulated therein with respect to interest on such Bonds for which such sinking fund installment was established) may, and if so directed by the Commission shall be applied by the Trustee, on or prior to the fortieth day preceding the due date of such sinking fund installment to (a) the purchase of Bonds of the maturity and interest rate within each maturity for which such sinking fund installment was established or (b) the redemption at the applicable sinking fund redemption price of such Bonds, if then redeemable by their terms. Purchases of Bonds must be made by the Trustee, at the direction of the Commission, at prices not exceeding the applicable sinking fund redemption price of such Bonds plus accrued interest. The applicable sinking fund redemption price (or principal amount of maturing Bonds), plus accrued interest, of any Bonds so purchased or redeemed will be deemed to constitute part of the Debt Service Fund until such sinking fund installment date, for the purpose of calculating the amount of such Fund. As soon as practicable after the 40th day preceding the due date of any such sinking fund installment, the Trustee will proceed to call for redemption on such due date Bonds of the maturity

Bonds maturing on a sinking fund installment date), in such amount as may be necessary to complete the retirement of the unsatisfied balance of such sinking fund installment after making allowances for any Bonds purchased or redeemed (other than pursuant to a mandatory sinking fund redemption applicable to such Bonds) which the Commission has directed the Trustee to apply as a credit against such sinking fund installment as provided in the Indenture. Out of the related Debt Service Fund, the Trustee will pay to the Paying Agent on or before such redemption date (or maturity date), the amount required for the redemption of such Bonds so called for redemption (or for the payment of Bonds then maturing), and such amount will be applied by the Paying Agent to such redemption (or payment).

In the event that the Bonds are to be refunded and in accordance with the directions of the Commission and the requirements of the Indenture, the Trustee will withdraw from the related Debt Service Fund all or any portion of the amounts accumulated therein with regard to debt service on the Bonds to be refunded and will deposit such amounts in such Funds or Accounts as required by the Indenture.

The Commission has covenanted to maintain an amount equal to one-twelfth of the annual aggregate Debt Service for all series of Bonds related to Facility No. 3 on deposit in the Earnings Account of the Debt Service Fund for Facility No. 1 commencing May 10, 2000. Such amount shall be maintained in excess of the required deposits to the Series 1999A Account of the Debt Service Fund for Facility No. 3 to provide for debt service on the related series of Bonds.

Debt Service Reserve

The Commission may, at its option, establish a debt service reserve for all series of Bonds related to a Facility in a related Supplemental Indenture. The amount of the debt service reserve requirement therefor also shall be established in such Supplemental Indenture. **No debt service reserve is established for or available to the 1999 Bonds.**

Replacement Reserve Fund

Upon the instruction or request of the Commission pursuant to the Indenture, the Trustee will disburse amounts in the Replacement Reserve Fund for a Facility, as follows:

- (a) For payment of the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility;
- (b) To a related Fund or Account to the extent of any deficiencies therein; and
- (c) To the General Fund, any amounts in excess of that needed to pay costs of major nonrecurring maintenance and repairs for such Facility.

General Fund

Upon delivery of written instructions executed by an authorized officer of the Commission, the Trustee will disburse amounts in the General Fund from time to time as follows and in the following order of priority.

First, to the other Funds and Accounts under the Indenture, *pro rata* to the extent of any deficiencies therein and in the priority established for distribution of moneys under the Revenue Fund.

Second, to the Commission, (a) for the payment of Commission expenses related to a Facility, (b) to the payment of any refund to any person, including the Department of Administration, of any rents, rates, fees or charges received by the Commission from such person for use and occupancy of the Facility, or (c) for any lawful purpose of the Commission as determined by resolution of the Commission.

Rebate Fund

The Trustee is required to pay to the Rebate Fund related to a particular Facility such amounts, if any, from such Funds and Accounts under the Indenture as are required pursuant to the related Rebate Memorandum. Amounts in the Rebate Fund, other than any excess amounts which may be authorized to be transferred to a related Fund or Account under the Indenture at the written direction of an authorized officer of the Commission, will be held by the Trustee for payment to the United States Government as required pursuant to such Rebate Memorandum. The Trustee will make such payments or otherwise disburse amounts in the Rebate Fund at such times and in such amounts as may be required pursuant to such Rebate Memorandum.

Investments

Moneys held in the Revenue Funds, the Operation and Maintenance Funds, the Debt Service Funds, the Replacement Reserve Funds, the General Fund and the Rebate Funds will be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities, as defined in the Indenture, maturing not later than such times as may be necessary to provide moneys for payments required to be made from such Funds. Moneys held in the Construction Fund may be invested and reinvested by the Trustee in Investment Securities maturing not later than such times as may be necessary to provide moneys when needed to provide payments from such Fund (as indicated in a written draw-down schedule provided by the Commission). The Trustee will make all such investments of moneys held by it in accordance with written instructions from an authorized officer of the Commission or, in the absence of such written instructions, in securities described in clause (xiii) of the definition of Investment Securities until instructed in writing by the Commission to invest otherwise.

Earnings on any moneys or investments in all Funds, Accounts and Subaccounts established under the Indenture will be retained in the respective Funds, Accounts and Subaccounts for the purposes provided therein, all subject to the provisions of the Indenture governing the Rebate Fund; except that earnings on all Accounts of the Construction Fund related to a Facility (except an Interest Account) and any debt service reserve will be deposited in the Project Account prior to the Commencement Date for such Facility. Notwithstanding the foregoing, supplemental indentures providing for the issuance of Additional Bonds may provide alternative directions for the deposit of investment earnings prior to the Projected Commencement Date for such Facility.

In computing the amount in any Fund, Account or Subaccount created under the Indenture for any purpose provided in the Indenture, obligations purchased as an investment of moneys in such Fund, Account or Subaccount will be valued at the amortized cost of such obligations, determined in accordance with the Indenture; provided that an authorized officer of the Commission, in its discretion, may direct the Trustee in writing to use the fair market value method of valuation from time to time.

Annual Budgets

On or before the first day of August of each year while Bonds are outstanding, the Commission shall prepare and file with the Trustee its proposed annual budget forecast for the ensuing two Fiscal Years which shall set forth in reasonable detail with respect to each Facility: (i) the estimated Gross Revenues for such Fiscal Years; (ii) to the extent the Commission is obligated under the Use and Occupancy Agreements or otherwise, to operate, maintain or repair such Facility or any portion thereof at its expense, the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Commission pursuant to the related Use and Occupancy Agreement or otherwise for a Facility or such portion thereof for such Fiscal Years; (iii) the estimated expenses of the Commission in complying with the covenants of the Indenture and the estimated expenses of the Commission in managing and administering a Facility; (iv) the estimated Debt Service for such Fiscal Years; (v) the required deposits, if any, to any debt service reserve for such Fiscal Years; and (vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility for such Fiscal Years. In the event the proposed annual budget forecast for any Fiscal Year forecasts a deficiency in the Net Revenues resulting from the funds appropriated for such Fiscal Year to the Department of Administration or any other Agency for the payment of the Department of Administration's or other Agency's obligations under the Use and Occupancy Agreements, the Commission shall cause a budget request to be made at the next session of the General Assembly to cure such deficiency.

As soon as available after the end of each legislative session of the State during an odd-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Commission shall prepare and file with the Trustee the annual budgets adopted by the Commission for the ensuing two Fiscal Years for each Facility which shall set forth in reasonable detail: (i) the estimated Gross Revenues for such Fiscal Years; (ii) to the extent the Commission is obligated under the related Use and Occupancy Agreement or otherwise, to operate, maintain or repair the Facility or any portions

thereof at its expense, the expenses of operation, maintenance and repair estimated to be incurred as an expense of the Commission pursuant to the related Use and Occupancy Agreement or otherwise for such Facility or such portion thereof for such Fiscal Years; (iii) the estimated expenses of the Commission in complying with the covenants of the Indenture and the estimated expenses of the Commission in managing and administering such Facility; (iv) the estimated Debt Service for such Fiscal Years, (v) the required deposits, if any, to any debt service reserve for such Fiscal Years; and (vi) the estimated costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility for such Fiscal Years. As soon as possible after the end of each legislative session of the State during an even-numbered year, but in any event prior to the beginning of the ensuing Fiscal Year, the Commission shall prepare and file with the Trustee the annual budget adopted by the Commission for the ensuing Fiscal Year which shall set forth those matters required by the preceding sentence for such Fiscal Year. The Commission also may at any time adopt an amended annual budget for the remainder of the then current Fiscal Year.

Annual Audits

As soon as available after the end of each Fiscal Year, so long as any Bonds are outstanding, the Commission will file with the Trustee the general purpose financial statements of the Commission as prepared for such Fiscal Year, together with the accompanying opinion of the State Board of Accounts. If such statements are audited by an independent auditor, the Commission will file such financial statements, together with the auditor's report, with the Trustee within 120 days after the end of such Fiscal Year.

Operation, Maintenance, Repair of Facilities

The Indenture requires that the Commission must at all times (1) operate or cause the Facilities to be operated properly and in an efficient and economical manner and (2) maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and (3) from time to time make, or use its best efforts to cause to be made, all necessary or proper repairs, replacements and improvements so that at all times the operation of a Facility may be properly and advantageously conducted.

Rents, Rates, Fees, Charges

The Commission will fix, establish and maintain rents, rates, fees and charges that are reasonably expected to yield Gross Revenues during each Fiscal Year in which a Facility, or any portion thereof, is available for use and occupancy in an amount which, together with any available amounts in the Construction Fund, is equal to at least: (a) in the event the Commission is obligated under the Use and Occupancy Agreement or otherwise to operate, maintain or repair such Facility or any portion thereof at its expense, 100% of the expenses of operation, maintenance and repair to be incurred as an expense of the Commission (under the respective Use and Occupancy Agreement or otherwise) for such Fiscal Year for the Facility or any portion thereof; (b) 100% of the expenses

to be incurred by the Commission in managing and administering the Facility or such portion thereof and in complying with the covenants of the Indenture; (c) 100% of the Debt Service under the Indenture for such Fiscal Year; (d) 100% of the required deposits, if any, to any debt service reserve during such Fiscal Year; and (e) one-sixth of such amount as annually estimated by the Commission, after considering the amount on deposit in the Replacement Reserve Fund under the Indenture on the first day of such Fiscal Year, to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for a Facility or such portion thereof to be incurred through the end of the sixth Fiscal Year commencing on the first day of such Fiscal Year. Notwithstanding the foregoing, the Department of Administration has the right not to renew its obligations at the end of any term under any Use and Occupancy Agreement, thereby terminating such Use and Occupancy Agreement and its right to the use and occupancy of the related Facility, without affecting its right to use and occupy any other Facility under any other Use and Occupancy Agreement. In such event, the Commission, in fixing rents, rates and fees and charges on a Facility which continues to be leased to the Department of Administration, must not establish rents, rates, fees or charges for such Facility in excess of such Facility's allocable share of the amounts described in clauses (b) , (c) and (d) described above, determined by taking into account the amount of the Bond proceeds used to finance the Facility under the Indenture. Rents, fees and charges for such Facility related to the amounts described in clauses (a) and (e) described above will be based on the costs directly related to each Facility.

The Indenture provides that, to the extent permitted by law and subject to the provisions of the Indenture, including the Commission's tax covenants, the Commission may lease a portion of a Facility to an entity which is not an agency of the State. Also, to the extent permitted by law, the Commission will enforce the payment of any and all accounts owing to the Commission by reason of its ownership and operation of a Facility.

The Commission will use its best efforts to cause the General Assembly to appropriate to or for the benefit of the Department of Administration and each State agency obligated to pay rentals on account of the leasing by the Department of Administration or such agency of space in a Facility pursuant to the Use and Occupancy Agreements moneys sufficient to enable the Commission to comply with its obligations under the Indenture. The Indenture requires that the Use and Occupancy Agreements must provide that the Department of Administration or any State agency subleasing thereunder must use its best efforts to cause the General Assembly to appropriate moneys sufficient to enable the Commission to comply with its obligations under the Indenture.

The Indenture provides that, in the event the Department of Administration is required to vacate a Facility or any portions thereof because funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due pursuant to the related Use and Occupancy Agreement or because the Department of Administration elects not to renew such Use and Occupancy Agreement at the end of any term, the Commission will use its best efforts to cause such Facility or such portions thereof to be leased to generate moneys sufficient to enable the Commission to comply with its obligations under the Indenture, subject to the requirements for any such leasing under the Indenture. See "Tax Covenants."

Insurance, Completion of Performance

The Commission will at all times, including all times prior to and after the completion of Acquisition of a Facility, keep or cause to be kept each Facility insured against loss or damage by fire and from other causes customarily insured against under a standard extended coverage endorsement in an amount at least equal to the lesser of (a) the amount sufficient to provide for the payment or redemption of the then outstanding Bonds or (b) 100% of the full replacement cost of such Facility; provided, however, such insurance may contain a reasonable loss deductible clause. In addition, the Commission will at all times, including all times prior to and after the completion of Acquisition of each Facility, use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to such Facility.

The Indenture requires that the Commission must maintain or cause to be maintained such performance bond or performance insurance with respect to contracts it may enter into for the Acquisition of such Facility as is usually maintained by those Acquiring properties similar to the Facility.

The Commission will at all times maintain or cause to be maintained business interruption loss insurance to insure against loss of projected annual rental income payable pursuant to the Use and Occupancy Agreement, or any other lease of a Facility or any portion thereof, for such time (being at least for a period of twelve months) as use of a Facility or any portion thereof are interrupted by damage or destruction from perils insured against under a standard extended coverage endorsement. Such insurance will also be carried with respect to any portion of a Facility not then occupied pursuant to the respective Use and Occupancy Agreement in an amount equal to the fair rental value of such portions, all as are reasonably necessary to meet its obligations under the Indenture.

The Indenture requires the Commission to use its best efforts to maintain or cause to be maintained any additional or other insurance as it deems necessary or advisable to protect the interests of the Commission and the owners of the Bonds.

Policies or contracts for insurance must under the Indenture, be in a form and with insurers of good standing or with an insurance group or state insurance pool acceptable to the Trustee and will be payable to the Trustee for the benefit of the Trustee and the Commission. Performance bonds must be in a form and with an issuer acceptable to the Trustee and will be payable to the Trustee for the benefit of the Trustee and the Commission.

If (a) the performance of any contract for the construction of a Facility is not completed in accordance with its terms and (b) , in the opinion of an independent registered architect or registered engineer who is acceptable to the Trustee, the cost of completion of such performance will not exceed the amount of proceeds from any performance bond or performance insurance to be received by reason of such noncompletion of performance, together with other available funds (including

without limitation proceeds from any series of Bonds authorized and issued under the Indenture for such purpose), then the Commission will continuously and diligently complete or cause to be completed such performance as expeditiously as possible.

Damage, Destruction

The Indenture provides that if any Facility is damaged or destroyed and, in the opinion of an independent registered architect or registered engineer who is acceptable to the Trustee, (a) the cost of such repair, replacement or reconstruction will not exceed the amount of insurance proceeds to be received by reason of such damage or destruction and other amounts available therefor (including, but not limited to, proceeds from any series of Bonds which may be authorized and issued under the Indenture for such purpose), and (b) such repair, replacement or reconstruction can be completed within the period covered by the rental value, insurance or other amounts available therefor (including, but not limited to, proceeds from any series of Bonds which may be authorized and issued under the Indenture for such purpose), the Commission must, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted repair, reconstruction or replacement thereof; provided, if such conditions are not met in the event of total or substantial destruction of a Facility, the Commission will request the Trustee to redeem the allocable Bonds from the available proceeds pursuant to the extraordinary redemption provisions of the Indenture. See "DESCRIPTION OF THE 1999 BONDS Redemption Extraordinary Redemption." The Indenture provides that within 120 days after either the noncompletion of performance of any contract for Acquisition of any Facility or the occurrence of an event of damage or destruction to any Facility, the Commission must deliver to the Department of Administration and the Trustee the appropriate written opinion of the architect or engineer referred to in the preceding sentences, stating whether the required conditions have been satisfied. The proceeds from any performance bond or performance insurance paid on account of noncompletion of performance and the proceeds from any insurance paid on account of such damage or destruction (other than any business interruption loss insurance) will be deposited with and held by the Trustee in the related Construction Fund and made available for, and to the extent necessary be applied to, the costs of such completion of performance or such repair, reconstruction or replacement. Pending application, such proceeds may be invested by the Trustee in Investment Securities which mature not later than such times as may be necessary to provide moneys when needed to pay such costs.

Interest earned on such investments will be deposited in the related Revenue Fund. If the Commission notifies the Trustee that the proceeds from insurance paid on account of damage or destruction will be applied to redeem Bonds in accordance with the terms of the Indenture, then such proceeds will be applied by the Trustee in accordance with the Indenture. Otherwise, such proceeds shall be applied to the cost of repair, reconstruction or replacement as described above. If proceeds are held in the related Construction Fund for the costs of completing performance or repair, reconstruction or replacement, the Commission will notify the Trustee of completion of performance or of costs of the completion of the repair, reconstruction or replacement in writing. The Trustee will apply such balance of funds in such Construction Fund to remedy the deficiencies in any of the related Funds and Accounts, and if there exists no such deficiency or if such proceeds exceed the

amount necessary to remedy such deficiency, such proceeds or the excess thereof, as the case may be, will be applied to any lawful purpose of the Commission. In the event the Commission has failed to complete such performance or failed to repair, replace or reconstruct any damaged or destroyed Facility or has abandoned or failed to prosecute such completion or action diligently, the Trustee may, in its discretion, complete such performance or make such repairs, replacements or reconstructions and enter upon the premises of the Facility to the extent necessary to accomplish such purpose. However, the Trustee will not be obligated to complete or cause the completion of such performance or make any such repairs, replacements or reconstructions unless (a) it has been requested to do so by the holders of not less than ten percent in aggregate principal amount of all Bonds then outstanding and (b) it has been indemnified, to its satisfaction, against any loss, damage or expense which it might thereby incur.

All proceeds of business interruption loss insurance maintained and received under the Indenture will be paid into the related Revenue Fund.

Additional Bonds

One or more series of Additional Bonds may be issued, without limitation as to amount and at any time, for the purpose of paying Acquisition Costs of a Facility or refinancing an obligation (other than Bonds) used to pay such cost. Such Additional Bonds issued for a particular Facility will be authenticated and delivered by the Bond Registrar only upon receipt by the Trustee (in addition to certain other documents required by the Indenture) of:

(a) a certificate of an Authorized Officer of the Commission, stating that the related Use and Occupancy Agreement for the Facility will provide sufficient Gross Revenues to provide for the payment with respect to all related series of Bonds;

(i) to the extent the Commission is obligated under a Use and Occupancy Agreement or otherwise to operate, maintain or repair such Facility or any portion thereof at its expense, the expenses of operation, maintenance and repair incurred and expected to be incurred as an expense of the Commission pursuant to such Use and Occupancy Agreement or otherwise during each such Fiscal Year (or applicable portions thereof) for such Facility or any portion thereof, including expenses incurred by the Commission in managing and administering such Facility or portion thereof;

(ii) the Debt Service for all related series of Bonds;

(iii) the required deposits, if any, to any debt service reserve related to such Facility; and

(iv) to the extent authorized or permitted by the Act, for each such Fiscal Year, one-sixth (1/6) of such amount as the Commission annually estimates

is required, together with amounts on deposit in the Replacement Reserve Fund under the Indenture on the first day of each such Fiscal Year, to provide for the costs of major non-recurring maintenance, repairs, improvements, equipment and replacements for such Facility incurred and expected to be incurred through the end of the sixth Fiscal Year commencing on the first day of each such Fiscal Year (or applicable portions thereof);

(b) a certificate of the Chairman or Secretary of the Commission stating that:

(i) sufficient funds will be paid into the Debt Service Fund or the Construction Fund related to such Facility to provide for the Debt Service for the related series of Bonds to be issued until such time as rental rates providing sufficient Net Revenues will begin to be paid to the Commission pursuant to the respective Use and Occupancy Agreement; and

(ii) sufficient funds will be paid into any debt service reserve to provide for the related debt service reserve requirement.

If an Additional Facility to be financed or refinanced from the proposed series of Additional Bonds is not included under an existing Use and Occupancy Agreement, then the Commission is required to deliver to the Trustee prior to the issuance of such Additional Bonds an executed copy of an Additional Use and Occupancy Agreement for the Additional Facility to be financed from such Bonds, certified by the Chairman of the Commission. Such Additional Use and Occupancy Agreement must contain provisions for the term and termination of such Additional Use and Occupancy Agreement, the payment and determination of rentals for the related Facility, and the maintenance of insurance which are materially similar to those contained in the existing Use and Occupancy Agreements. If the Additional Bonds are proposed to be issued to complete, improve, renovate, refurbish or alter a Facility already under a Use and Occupancy Agreement, such Use and Occupancy Agreement will be amended to reflect the issuance of such series of Additional Bonds.

Refunding Bonds

One or more series of Refunding Bonds may be issued at any time to refund outstanding Bonds or portions of outstanding Bonds of any series or any portion of any series under the Indenture. Refunding Bonds may be issued in a principal amount sufficient, together with other moneys available therefor, to effect such refunding and to make the deposits in the funds and accounts related to the Refunding Bonds of each series that may be authenticated and delivered by the Bond Registrar for such series only upon receipt by the Trustee, in addition to certain other documents required by the Indenture, of the following:

(a) Instructions satisfactory to the Trustee to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions, subject to the provisions of the Indenture;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, instructions satisfactory to the Trustee to make due publication of the notice provided for in the Indenture to the holders of the Bonds being refunded; and

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable redemption price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys will be held by the Trustee or the Paying Agent in a separate account irrevocably in trust for and assigned to the respective holders of the Bonds to be refunded, or (ii) Defeasance Securities (defined in the Indenture) in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys, as may be necessary to comply with the Indenture, which Defeasance Securities and moneys will be held in trust and used only as provided therein.

Extension of Payment of Bonds

The Commission will not directly or indirectly extend or assent to the extension of the maturity of any Bonds or the time of payment of any claims for interest by the funding of any Bonds or claims for interest or by any other arrangement and, in case the maturity of any Bonds or the time for payment of any such claims for interest is extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefit of the Indenture or to any payment out of moneys held and pledged under the Indenture or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Indenture) held by any Fiduciary, except subject to the prior payment of the principal of all Bonds outstanding, the maturity of which has not been extended, and of such portion of the accrued interest on such Bonds as is not represented by such extended claims for interest. Any issuance of Refunding Bonds by the Commission is not and may not be deemed to be an extension of the maturity of any other Bonds.

Payment of Taxes, Charges

The Indenture requires the Commission from time to time to duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, if any, or required payments in lieu thereof, lawfully imposed upon a Facility or upon the rights, revenues, income, receipts and other moneys, securities and funds of the Commission with respect to such Facility when the same become due (including all rights, moneys and other property transferred, assigned or pledged under the Indenture), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Commission may in good faith contest by proper legal proceedings if the Commission has, in all such cases, set aside on its books reserves deemed adequate with respect thereto.

Tax Covenants

In the Indenture, the Commission agrees that it will make no use of proceeds of any Tax-Exempt Bonds, or of amounts which may be treated as proceeds thereof, which could cause such Tax-Exempt Bonds to be or become "arbitrage bonds" within the meaning of Section 148 of the Code, or any successor provisions thereto.

The Commission covenants in the Indenture that it will not take any action or fail to take any action with respect to the proceeds of any Bonds or ownership or use of a Facility or any portion thereof that would result in loss of the exclusion from gross income for federal income tax purposes of interest paid on any Tax-Exempt Bonds.

The Indenture requires that the Use and Occupancy Agreements must provide that unless the Commission obtains an opinion of nationally recognized bond counsel to the effect that the lease or sublease of a Facility or any portion thereof to, or a use of a Facility or such portion thereof by, a person (natural or otherwise) will not result in a loss of the exclusion from gross income of interest paid on any Tax-Exempt Bonds, neither the Facility nor such portion thereof will be let or sublet to any person other than a State agency, and neither the Facility nor such portion thereof will be used by any person (natural or otherwise) in a trade or business, except one who is using the Facility or such portion thereof in his or her capacity as an Employee. Each Use and Occupancy Agreements must provide that the Commission may enter into a management agreement with the Department of Administration or any State agency to manage a Facility, but shall not enter into a management agreement with any other person (natural or otherwise) in a trade or business unless in the opinion of nationally recognized bond counsel such agreement will not result in a loss of the exclusion from gross income of interest paid on any Tax-Exempt Bonds.

The Indenture requires the Commission, not later than the first day of the second calendar month after the close of the calendar quarter in which any Tax-Exempt Bonds were issued (or such other time as may be required by the Code or regulations promulgated thereunder), to file a statement with the Internal Revenue Service and the Trustee concerning such Bonds, which contains that information required by Section 149 of the Code and any regulations promulgated thereunder.

Defaults, Remedies

Definition. If for any Facility or the Bonds related to such Facility one or more of the following Events of Default or any additional Event of Default set forth in a Supplemental Indenture related to any such Bonds shall happen:

- (a) a default is made in the due and punctual payment of the principal or redemption price of any Bond related to such Facility when and as the same becomes due and payable, whether at maturity or by call or proceedings for redemption, or otherwise;

(b) a default is made in the due and punctual payment of any installment of interest on any Bond related to such Facility or the unsatisfied balance of any sinking fund installment (except when such sinking fund installment is due on the maturity date of such Bond), when and as such interest installment or sinking fund installment becomes due and payable;

(c) a default is made by the Commission in the performance or observance of any other of the covenants, agreements or conditions in the Indenture related to such Facility or to the Bonds related to a Facility, and such default has continued for a period of 60 days after written notice specifying such default, requiring that it be remedied and stating that such notice is a "Notice of Default" under the Indenture shall have been given to the Commission by the Trustee or to the Commission and the Trustee by the holders of not less than 25% in principal amount of the Bonds related to such Facility outstanding; or

(d) a court having jurisdiction in the premises enters a decree or order providing for relief in respect of the Commission in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Commission for any substantial part of the property of the Commission, or ordering the winding-up or liquidation of its affairs, and such decree or order remains unstayed and in effect for a period of 90 days;

then, and in each and every such case, so long as such event of default has not been remedied, unless the principal of all the Bonds related to such Facility has already become due and payable, the Trustee may or, upon the direction of the holders of not less than 25% in principal amount of such Bonds then outstanding (by notice in writing to the Commission and the Trustee), must declare the principal of all the Bonds related to such Facility then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable; provided, however, the principal of and interest on any series of Bonds may not be declared immediately due and payable without the prior written consent of the provider of a Credit Facility with respect to such series to the extent provided for in the Supplemental Indenture under which such series of Bonds is issued. The right of the Trustee or of the holders of not less than 25% in principal amount of the Bonds related to such Facility outstanding to make any such declaration, however, is subject to the condition that if, at any time after such declaration, but before such Bonds have matured by their terms, all overdue installments of interest on such Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the Commission under the Indenture (except the principal of and interest accrued since the next preceding interest date on such Bonds due and payable solely by virtue of such declaration) have either been paid by or for the account of the Commission, or provisions satisfactory to the Trustee have been made for such payment, and all defaults under such Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) have been made good or be secured to the satisfaction of the Trustee or provision

deemed by the Trustee to be adequate has been made therefor, then and in every such case the holders of 25% in principal amount of such Bonds outstanding, by written notice to the Commission and the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee has acted itself, and if there has not been theretofore delivered to such Trustee written direction to the contrary by the holders of 25% in principal amount of such Bonds outstanding, then any such declaration will ipso facto be deemed to be rescinded and any such default will *ipso facto* be deemed to be annulled, but no such rescission or annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Upon the occurrence of any event of default, so long as such event of default has not been remedied, and upon the demand of the Trustee, the Commission will account, as if the Commission were the trustee of an express trust for all Net Revenues and other moneys, securities and funds pledged or held under the Indenture for the period stated in the Trustee's demand.

Application of Revenues, Other Moneys. During the continuance of an event of default for Bonds related to a particular Facility, the Trustee will (a) request that the Commission immediately release to the Trustee all Net Revenues related to the Facility then held by the Commission and (b) apply the Trust Estate for such Bonds held by it pursuant to the Indenture (except for the moneys, securities and funds held in the Rebate Fund under the Indenture which will continue to be used for the purpose therein) or received by it pursuant to any right given or action taken under the Indenture as follows and in the following order:

(i) Expenses of Fiduciaries to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for such Bonds;

(ii) Rebate to the payment of any rebate obligation for such Bonds owed under Section 148 of the Code, to the extent sufficient funds are not available in the Rebate Fund;

(iii) Principal or Redemption Price and Interest to the payment of the interest and principal or redemption price then due on such Bonds outstanding, as follows:

(a) unless the principal of all of such Bonds has become or has been declared due and payable,

FIRST: Interest To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on such Bonds theretofore called for redemption, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably,

according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: Principal or Redemption Price To the payment to the persons entitled thereto of the unpaid principal or redemption price of any such Bonds which have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all such Bonds due on any date, then to the payment thereof ratably, according to the amount of principal or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference;

(b) if the principal of all of such Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon such Bonds without preference or priority of principal, interest or premium, if any, over the other, or of any installment of interest over any other installment of interest or of any such Bond over any other such Bond or of any series over any other series under the Indenture, ratably, according to the amounts due respectively for principal, interest and premium, if any, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

(iv) **Replacement Reserve Expenses** to the payment of the amounts required for reasonable and necessary costs of major non-recurring maintenance, repairs, improvements, equipment or replacements of all the related Facilities necessary in the judgment of the Trustee to prevent a loss of Gross Revenues for all the related Facilities under the Indenture;

(v) **Subordinated Indebtedness** to the payment of principal, redemption price and interest then due on subordinated indebtedness of the Commission.

If and whenever all overdue installments of interest on all such Bonds outstanding, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the Commission under the Indenture, including the principal and redemption price of and accrued unpaid interest on all such Bonds which are then payable, have either been paid by or for the account of the Commission, or provision satisfactory to the Trustee has been made for such payment, and all defaults under the Indenture or such Bonds have been made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor,

the Trustee will pay over to the Commission all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the Indenture to be deposited or pledged, with the Trustee), and thereupon the Commission and the Trustee will be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Commission by the Trustee and no such restoration of the Commission and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Proceeding by Trustee. Upon the occurrence of an event of default for Bonds related to a particular Facility, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the holders of not less than 25% in principal amount of the related Bonds outstanding, so long as such event of default has not been remedied, must proceed, to protect and enforce its rights and the rights of the holders of the Bonds forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted or any remedy granted under the Act or for an accounting against the Commission as if either were the trustee of an express trust or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel deems to be the most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

All rights of action under the Indenture may be enforced by the Trustee without the possession of any of such Bonds or the production thereof on the trial or other proceedings, and the Trustee will bring any such suit or proceedings in its name.

The holders of not less than a majority in principal amount of such Bonds at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; provided, that the Trustee will have the right to decline to follow any such direction if: (a) the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken; (b) the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability, unless such holders agree to indemnify the Trustee against such liability and post bond in respect of such indemnity; or (c) the Trustee in good faith determines that the action or proceeding so directed would be unjustly prejudicial to the related holders of such Bonds not parties to such direction.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee will be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any event of default.

Regardless of the happening of an event of default under the Indenture, the Trustee will have power to, but unless requested in writing by the holders of 25% in principal amount of such Bonds then outstanding, and furnished with reasonable security and indemnity, will be under no obligation to, institute and maintain such suits and proceedings as it may be advised are necessary or expedient

to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interests of the holders of Bonds outstanding.

Rights, Remedies. No holder of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such holder has previously given to the Trustee written notice of the happening of any event of default and the holders of at least 25% in principal amount of such Bonds related to a particular Facility then outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the Act or to institute such action, suit or proceeding in its own name, and unless such holders have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more holders of Bonds outstanding will have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all holders of the Bonds outstanding subject only to the provisions respecting extension of payment of such Bonds.

The Indenture requires the Trustee to promptly mail written notice of the occurrence of any event of default related to a particular Facility to each registered owner of related Bonds then outstanding at his address, if any, appearing on the registration books of the Commission.

Notwithstanding anything in the Indenture to the contrary, a default on Bonds related to a particular Facility will not affect any Bonds related to any other Facility, and no such default shall give rise, in and of itself, to a default on any other Bond related to any other Facility.

Nonexclusivity of Remedies. No remedy conferred upon or reserved to the Trustee or the holders of Bonds outstanding is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to every other remedy given under or existing at law, including under the Act, or in equity or by statute on or after the date of execution and delivery of the Indenture.

Waiver of Events of Default. The Indenture provides that no delay or omission of the Trustee or any holder of any Bonds outstanding to exercise any right or power arising upon the happening of an event of default will impair any right or power or will be construed to be a waiver of any such event of default or be an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by Bondholders.

Prior to the declaration of maturity of Bonds as provided in the Indenture, the holders of not less than a majority in aggregate principal amount of the Bonds in Default then outstanding under the Indenture, or their attorneys-in-fact duly authorized, may on behalf of the holders of all the Bonds outstanding waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal of or premium, if any, on any of the Bonds outstanding. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

Supplemental Indentures, Amendments

The Commission may without the consent of the Trustee or any of the owners of Bonds enter into any Supplemental Indenture, effective upon certification by the Chairman or Secretary of the Commission and filing with the Trustee, for any one or more of the following purposes:

- (a) To close the Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidence of indebtedness;
- (b) To add other covenants, agreements, limitations and restrictions to be observed by the Commission which are not contrary to or inconsistent with the Indenture;
- (c) To add additional events of default under the Indenture;
- (d) To authorize a series of Bonds related to a particular Facility or a portion thereof in accordance with the Indenture;
- (e) With the prior written opinion of nationally recognized bond counsel to the effect that to do so will not affect the excludability of interest on any Tax-Exempt Bonds from gross income for federal income tax purposes, to authorize, in accordance with the Indenture and in compliance with all applicable laws, Bonds of each series to be issued in the form of coupon Bonds registrable as to principal only;
- (f) To authorize, in accordance with the Indenture and in compliance with all applicable law, Bonds of any series to be issued in the form of Bonds issued and held in book-entry form on the books of the Commission or any Fiduciary appointed for that purpose by the Commission;
- (g) To authorize subordinated indebtedness of the Commission in accordance with the Indenture;
- (h) To confirm, as further assurance, any security interest, pledge or assignment under the Indenture of the Trust Estate or of any other real or personal property or other rights, or to add to any security interest, pledge or assignment created or to be created by the Indenture any real or personal property or other rights;

(i) To modify any of the provisions of the Indenture in any other respect whatever; provided that (a) such modification must be, and be expressed to be, effective only after all Bonds of each series outstanding at the date of the adoption of such Supplemental Indenture cease to be outstanding, and (b) such Supplemental Indenture must be specifically referred to in the text of all Bonds of any series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(j) To appoint or remove the Trustee;

(k) To modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America;

(l) To modify, amend or supplement the Indenture or any Supplemental Indenture to permit the issuance of Bonds and subordinated indebtedness in the form of debt instruments not then described by the Indenture, including, but not limited to, debt instruments bearing interest subject to federal income taxation under the Code;

(m) To modify, amend or supplement the Indenture to the extent necessary to enable the Commission to comply with its tax covenants under such Indenture;

(n) To make any other modification or amendment of the Indenture which the Commission determines in good faith will not have a material adverse effect on the interests of the Bondholders; or

(o) To authorize financial products, including, but not limited to, forwards, hedges, swaps, of any kind or description and, in connection therewith, specify and determine such matters and things relative thereto.

In addition, the Commission may, with the consent of the Trustee, but without the consent of any of the owners of Bonds, enter into any Supplemental Indenture, effective upon certification by the Chairman or the Secretary of the Commission and filing with the Trustee, for any one or both of the following purposes, if such would not materially adversely affect the interests of Bondholders:

(a) To cure any ambiguity, supply any omission or cure or correct any defect or inconsistent provision in the Indenture; or

(b) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture as theretofore in effect.

The Indenture provides that any other modification or amendment of the Indenture and of the rights and obligations of the Commission (including without limitation any modification or amendment of the Commission's tax covenants under the Indenture), and of the holders of the Bonds thereunder, in any particular, may be made in accordance with the notice and other requirements of the Indenture by a Supplemental Indenture, with the written consent given as provided in the Indenture (a) of the holders of not less than a majority in principal amount of such Bonds outstanding at the time such consent is given, (b) in case less than all of the several series of such Bonds then outstanding are affected by the modification or amendment, of the holders of not less than a majority in principal amount of such Bonds of each series so affected and outstanding at the time such consent is given, and (c) in case the modification or amendment changes the terms of any sinking fund installment, of the holders of not less than a majority in principal amount of such Bonds of the particular series and maturity entitled to such sinking fund installment and outstanding at the time such consent is given. Bonds owned or held by or for the account of the Commission will not be deemed outstanding for purposes of calculating consent or other action by owners of outstanding Bonds. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the redemption price thereof or in the rate of interest thereon without the consent of the holder of such Bond, or reduce the percentages or otherwise affect the classes of Bonds the consent of the holders of which is required to effect any such modification or amendment or change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. No modification will be deemed effective to change any right or obligation of the Trustee or any other Fiduciary without the written consent of such Fiduciary. A series of Bonds will be deemed to be affected by a modification or amendment of the Indenture if such modification or amendment adversely affects or diminishes the rights of the holders of Bonds of such series. The Trustee has the authority to determine conclusively whether any particular series or maturity of Bonds would be adversely affected by any such modification or amendment.

Defeasance

The Indenture provides that, if the Commission pays or causes to be paid, or there has otherwise been paid, to the holders of all Bonds outstanding the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in such Bonds and in the Indenture, then the pledge of the Trust Estate and all covenants, agreements and other obligations of the Commission to such Bondholders will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will cause an accounting for such period or periods as may be requested by the Commission to be prepared and filed with the Commission and, upon the request of the Commission, all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries will pay over or deliver to the Commission all moneys or securities held by them pursuant to the Indenture which are not required for the payment of principal or redemption price, if applicable, and interest due or to become due on such Bonds not theretofore surrendered for such payment or redemption. If the Commission pays or causes to be paid, or there has otherwise been paid, to the holders of any outstanding Bonds the principal or redemption price, if applicable, and interest due or to become due thereon, at the times

and in the manner stipulated therein and in the Indenture, such Bonds will cease to be entitled to any benefit or security under the Indenture, and all covenants, agreements and obligations of the Commission to the holders of such Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Bonds issued under the Indenture will be deemed to have been paid within the meaning and with the effect expressed above if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Commission has given to the Trustee instructions accepted in writing by the Trustee to mail as provided in the Indenture notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Commission or purchased or otherwise acquired by the Commission and delivered to the Trustee prior to the mailing of such notice of redemption) on such date, (b) there have been deposited with the Trustee either moneys in an amount sufficient, or Defeasance Securities (including any Defeasance Securities issued or held in book-entry form on the books of the Department of Administration of the Treasury of the United States of America) the principal of and the interest on which when due will provide moneys which together with the moneys, if any, on deposit with the Trustee at the same time, are sufficient to pay when due the principal or redemption price, if applicable, and interest due and to become due on such Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Commission has given the Trustee in form satisfactory to it instructions to mail as soon as practicable, a notice to the holders of such Bonds at their last addresses appearing upon the registration books at the close of business on the last business day of the month preceding the month for which notice is mailed that the deposit required by clause (b) above has been made by the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are expected, subject to the Indenture, to be available for the payment of the principal or redemption price, if applicable, on such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Commission or purchased or otherwise acquired by the Commission and delivered to Trustee prior to the mailing of the notice of redemption referred to in clause (a) above).

Municipal Bond Insurance Policy

Notwithstanding anything in the Indenture to the contrary, as long as the Municipal Bond Insurance Policy is in full force and effect, the Commission, the Trustee and any Paying Agent have agreed:

At least one day prior to each Interest Payment Date, the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the Insured Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds and Accounts, the Trustee or Paying Agent, if any, shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Insured Bonds to which such deficiency is applicable and whether such Insured Bonds will be deficient as to principal or interest or both principal and interest. If the

Trustee or Paying Agent, if any, has not so notified Ambac Assurance one day prior to an Interest Payment Date, Ambac Assurance will make payments of principal or interest due on the Insured Bonds on or before the first day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

The Trustee or Paying Agent, if any, shall, after giving notice to Ambac Assurance as described above, make available to Ambac Assurance and, at Ambac Assurance's direction, to the Insurance Trustee, the registration books of the Commission maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts maintained under the Indenture.

The Trustee or Paying Agent, if any, shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of the Insured Bonds entitled to receive principal or interest payments from Ambac Assurance under the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks to the registered owners of Insured Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Insured Bonds surrendered to the Insurance Trustee by the registered owners of the Insured Bonds entitled to receive full or partial principal payments from Ambac Assurance.

The Trustee or Paying Agent, if any, shall, at the time it provides notice to Ambac Assurance as described above, notify registered owners of the Insured Bonds entitled to receive the payment of principal or interest thereon from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of Insured Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must surrender their Insured Bonds (along with an appropriate assignment in form satisfactory to the Insurance Trustee to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Insured Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such Insured Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and then, along with an appropriate assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

In the event that the Trustee or Paying Agent, if any, has notice that any payment of principal of or interest on an Insured Bond which has become due for payment and which is made to a bondholder by or on behalf of the Commission has been deemed a preferential transfer and recovered from its registered owner by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time Ambac Assurance is notified as described above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available,

and the Trustee or Paying Agent, if any, shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Insured Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners, and the dates on which such payments were made.

In addition to those rights granted Ambac Assurance under the Indenture, Ambac Assurance shall, to the extent it makes payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the Commission maintained by the Trustee or Paying Agent, if any, upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Insured Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the Commission maintained by the Trustee or Paying Agent, if any, upon surrender of the Insured Bonds by the registered owners thereof together with proof of the payment of principal thereof.

Effects of Payments by Ambac Assurance

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Insured Bonds shall be paid by Ambac Assurance pursuant to the Municipal Bond Insurance Policy, the Insured Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Commission, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Commission to the registered owners of the Insured Bonds shall continue to exist and shall run to the benefit of Ambac Assurance, and Ambac Assurance shall be subrogated to the rights of such registered owners.

Ambac Assurance and Trustee

Ambac Assurance shall receive prior written notice of any Trustee resignation. Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to Ambac Assurance, shall be appointed.

Notwithstanding any other provision of the Indenture, in determining whether the rights of the 1999 Bondholders will be adversely affected by any action taken pursuant to the Indenture, the Trustee shall consider the effect on the 1999 Bondholders as if there were no Municipal Bond Insurance Policy.

Ambac Assurance Consent

Any provision of the Indenture expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance, without the prior written consent of Ambac Assurance.

Ambac Assurance Deemed Bondholder

Ambac Assurance shall be deemed to be, in lieu of the holders of the Insured Bonds, the owner of the Insured Bonds, for the following purposes: (i) execution and delivery of any Supplemental Indenture or any amendment, supplement or change to or modification of the Use and Occupancy Agreement; (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor Trustee or Paying Agent; and (iii) initiation or approval of any action not described in clause (i) or (ii) of this paragraph which requires consent of or action by the holders of the Insured Bonds.

Rights Granted

Nothing in the Series 1999A Supplemental Indenture is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Commission, the Trustee, Ambac Assurance, the Paying Agent, if any, and the registered owners of the Insured Bonds, any right, remedy or claim under or by reason of such Supplemental Indenture or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Series 1999A Supplemental Indenture contained by and on behalf of the Commission shall be for the sole and exclusive benefit of the Commission, the Trustee, Ambac Assurance, the Paying Agent, if any, and the registered owners of the Insured Bonds

Ambac Assurance Deemed Beneficiary

To the extent that the Indenture confers upon or gives or grants to Ambac Assurance any right, remedy or claim under or by reason of the Indenture, Ambac Assurance is explicitly recognized as being a third party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted under the Indenture.

DEFINITIONS

The following are definitions of certain terms used in this Official Statement:

"**Accounts**" means the accounts created under the Indenture.

"**Accrued Debt Service**" means, as of any date of calculation, an amount equal to the accrued Debt Service on all series of Bonds related to a Facility, calculating the accrued Debt Service with respect to each such series of Bonds at an amount equal to the sum of (a) interest on such Bonds accrued and unpaid to the end of the then current calendar month, (b) Principal Installments for such Bonds due and unpaid and (c) that portion of the Principal Installment for such Bonds next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

"**Acquire**," "**Acquired**" or "**Acquisition**" means to purchase, erect, build, construct, reconstruct, renovate, refurbish, replace, extend, better, equip, develop, rehabilitate, remodel, relocate, enlarge, expand, make additions to, alter, modify, change, furnish, repair or improve a Facility, or to complete any of the foregoing, in each case to the extent same constitutes a capital expenditure under applicable law.

"**Acquisition Costs**" means all reasonable and necessary costs incurred in the Acquisition of any Facility, which costs may include but are not limited to the cost of Acquiring real property and any buildings thereon including relocation costs and payments for options, deposits or contracts to purchase properties; the cost of site preparation, demolition and development; any expenses relating to the issuance of the Bonds incurred by the Commission, including but not limited to, private placement fees, underwriting fees, original issue discounts, rating agency fees, printing costs and other necessary fees; fees in connection with the planning, execution and financing of the Facility, such as those of financial consultants, engineers, bond counsel, other special counsel, real estate counselors, appraisers, architectural historians and other such consultants, employees and agents as may be required in the judgment of the Commission; the cost of studies, surveys, plans, permits, insurance, interest, financing, taxes and assessments, and other operating and carrying costs during the Acquisition of the Facility; the cost of Acquiring the Facility; the cost of land improvements such as landscaping and off-site improvements; any initial expense, charge or cost payable upon issuance of the obligations with respect to the Acquisition of the Facility relating to or incurred in connection with the remarketing of obligations, such as remarketing agent or indexing agent fees or for credit enhancements or liquidity features, including, but not limited to, letter of credit fees, whether direct-pay or standby, swap agent fees and similar expenses or fees; the initial cost of such other items, including premiums for indemnity and surety bonds, premiums on insurance, including, but not limited to, municipal bond insurance, debt service reserve insurance or sureties and rental payment insurance, and fees and expenses of trustees, depositories, registrars, book entry registrars and paying

agents for obligations issued under the Act; to the extent permitted by the Act, Debt Service on Bonds from the date thereof to the time when Debt Service is to be paid solely from the income and revenues of the Facility financed with such Bonds and any amounts necessary to establish or fund any reserves required in connection with such obligations; the reimbursement of all moneys advanced or supplied to or borrowed by the Commission, including without limitation payments under any Credit Note, for the payment of any item of cost of the Facility; and such other expenses as may be necessary, proper or convenient to the Acquisition of the Facility under applicable law, the financing thereof under the Act and the placing of the same in use.

"Act" means Indiana Code 4-13.5, as amended and supplemented from time to time and any successor of law.

"Additional Bonds" means one or more series of additional Bonds issued under a Supplemental Indenture.

"Additional Facility" means a building, a structure or any portion of any of the foregoing, authorized to be financed or refinanced by the Commission, financed with Bonds and owned by the Commission and leased to the Department of Administration or a State agency pursuant to an Additional Use and Occupancy Agreement.

"Additional Use and Occupancy Agreement" means any use and occupancy agreement by and between the Commission and Department of Administration or any other State agency which provides the terms and conditions of use and occupancy of any Additional Facility or any portion thereof, including any amendment or supplement thereto or renewal thereof.

"Ambac Assurance" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Bondholder" or "Holder of Bonds" or "Owner of Bonds" or any similar term means the registered owner of any Bond outstanding under the Indenture.

"Bond" or "Bonds" means any bonds, notes or other evidence of obligations of the Commission issued, authenticated and delivered pursuant to the Indenture, including the 1995A Bonds, the 1995B Bonds, the 1998 Bonds, the 1999 Bonds and any and all Additional Bonds and Refunding Bonds.

"Bond Registrar" means Bank One Trust Company, NA (successor by merger to NBD Bank, N.A.), a national banking association, as initial bond registrar for the 1999 Bonds and any bond registrar appointed for any Series of Bonds, and its successor or successors hereafter appointed in the manner provided under the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended or supplemented, and any successor provisions of law, and any applicable Treasury regulations promulgated thereunder.

"Commencement Date" means, for any Facility, or any portion thereof, the date on which a completion certificate for the Facility, or such portion thereof, is accepted by a representative of the Department.

"Commission" means the Indiana State Office Building Commission, a body corporate and politic, organized and existing under the Act and its successors.

"Counterparty" means Bank One Trust Company, NA, as counterparty to the Undertaking.

"Credit Facility" means an irrevocable letter of credit, line of credit, insurance policy or other credit facility issued by a municipal bond insurer, financial institution, trust company, insurance company or association which provides for the payment of principal of or interest on any Series of Bonds or portion thereof.

"Credit Note" means any line of credit or loan contract note or notes or other obligations (not including the Bonds or any other revenue bonds of the Commission) executed by the Commission pursuant to any credit or other agreement to which the Commission is a party.

"Debt Service" for any period means, as of any date of calculation and with respect to any outstanding series of Bonds, an amount equal to the sum of (a) interest accruing during such period on Bonds of such series, except to the extent that such interest is to be paid from deposits in the applicable Debt Service Fund under the Indenture from proceeds of the Bonds of such series or a related series, including amounts, if any, transferred from the applicable Construction Fund, and (b) that portion of each Principal Installment for such series of Bonds of which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such series of Bonds (or, if (i) there is no such preceding Principal Installment due date or (ii) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such series, whichever date is later), all subject to particular provisions of the Indenture in the case of any series of put, capital appreciation or convertible capital appreciation Bonds. Such interest and Principal Installments will be calculated on the assumption that no Bonds outstanding at the date of such calculation will cease to be outstanding, except by reason of the payment of each Principal Installment when due.

"Defeasance Securities" means and includes only (a) any direct and general obligations of, or any obligations the timely payment of principal and interest of which is unconditionally guaranteed by, the United States of America, which obligations are not redeemable prior to maturity other than at the option of the holders thereof, (b) obligations of, or unconditionally guaranteed as to the timely payment of principal and interest by, the Federal National Mortgage Association, which obligations are not redeemable prior to maturity other than at the option of the holder thereof, (c) any obligations of any state or political subdivision of a state (collectively, "Municipal Bonds") that are (i) fully secured as to principal and interest by an irrevocable pledge of moneys or direct and

general obligations of, or obligations unconditionally guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the owners of the Municipal Bonds and (ii) not redeemable prior to maturity other than at the option of the holder thereof, (d) certificates of ownership of the principal of or interest on direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System, which certificates of ownership are not redeemable prior to maturity other than at the option of the holder thereof, and (e) the interest component of obligations issued by the Resolution Funding Corporation, which are not redeemable prior to maturity other than at the option of the holder thereof.

"Department of Administration" means the Indiana Department of Administration and its successors.

"Department of Correction" means the Indiana Department of Correction and its successors.

"Dissemination Agent" means a dissemination agent designated in any Dissemination Agreement.

"Dissemination Agreement" means a Dissemination Agreement between the Commission and the Dissemination Agent, including any amendments or supplements thereto.

"Facility" or "Facilities" means Facility No. 1, Facility No. 2, Facility No. 3 or any Additional Facilities.

"Facility No. 1" means the maximum security correctional facility and medium security correctional facility (which are situated on the real property in Sullivan County, Indiana described in the Use and Occupancy Agreement No. 1) Acquired by the Commission, and any other buildings, structures and improvements in connection therewith and appurtenances thereto any time hereafter Acquired. Acquisition of Facility No. 1 was financed and refinanced with proceeds of the 1995A Bonds and 1998 Bonds.

"Facility No. 2" means the correctional facility for women (which is situated on the real property in Parke County, Indiana described in the Use and Occupancy Agreement No. 2), Acquired by the Commission, and any other buildings, structures and improvements in connection therewith and appurtenances thereto any time hereafter Acquired. Acquisition of Facility No. 2 was financed with proceeds of the 1995B Bonds.

"Facility No. 3" means medium security correctional facility (which is situated on the real property in Miami County, Indiana described in the Use and Occupancy Agreement No. 3), Acquired by the Commission, and any other buildings, structures and improvements in connection therewith and appurtenances thereto any time hereafter Acquired. Acquisition of Facility No. 3 will be financed with proceeds of the Miami Notes and 1999 Bonds.

"Fiduciary" means the Trustee, the Bond Registrar, the Paying Agent, the Depositories or any or all of them, as may be appropriate.

"First Supplemental Use and Occupancy Agreement" means the First Supplemental Use and Occupancy Agreement between the Commission, as lessor, and the Department of Administration, as lessee, dated as of July 1, 1995, supplementing and amending the Original Use and Occupancy Agreement No. 1.

"Fiscal Year" means the 12-month period commencing at 12:01 a.m. on July 1 of each year and ending at 12:01 a.m. that succeeding July 1 or such other fiscal year of the State as may be mandated by law.

"Fitch" means Fitch IBCA, Inc., and its successors and assigns, provided that, in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized rating agency as the Commission may from time to time designate.

"Funds" means each or all of the funds created under the Indenture.

"Gross Revenues" means for each Facility all fees, charges, revenues or receipts derived by the Commission from the operation or leasing of such Facility or any portion thereof pursuant to the Use and Occupancy Agreement or otherwise, or from the sale, transfer or conveyance (whether voluntary or involuntary) of such Facility or any portion thereof; and shall include any rental payments received with respect to such Facility or any portion thereof from whatever sources (including, but not limited to, business interruption loss insurance) and receipts therefrom.

"Insured Bonds" means the 1999 Bonds that are insured by Ambac Assurance pursuant to the Municipal Bond Insurance Policy as shown on the inside cover of this Official Statement.

"Insurance Trustee" means United States Trust Company of New York, an insurance trustee for Ambac Assurance, or any successor insurance trustee therefor.

"Interest Payment Date" means: (i) as to the 1999 Bonds, each January 1 and July 1, commencing January 1, 2000; and (ii) as to any other series of Bonds, the interest payment dates set forth in the Supplemental Indenture related thereto; provided that if such day is not a business day, the next succeeding business day.

"Investment Securities" means any of the following securities, if and to the extent the same are at the time legal for investment of the Commission's funds:

- (i) Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the Federal agencies set forth in

clause (iii) of this definition to the extent unconditionally guaranteed by the United States of America.

(ii) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) of this definition, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on bonds or other obligations of the character described in clause (i) of this definition which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate.

(iii) Bonds, debentures or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America.

(iv) Obligations issued by the Resolution Funding Corporation.

(v) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America, or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America.

(vi) Direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase hereunder such obligations are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services.

(vii) Obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision which shall be rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services.

(viii) Obligations of the Commission payable from and secured by a pledge of the income and revenues of a facility, other than the Facility, payable pursuant to a use and occupancy agreement.

(ix) Certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under such Indenture, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Fitch, Moody's Investors Service or Standard & Poor's Ratings Services, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Fitch, Moody's Investors Service or Standard & Poor's Ratings Services.

(x) Certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (i) of this definition, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the Indenture.

(xi) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of any of the 50 largest banks in the United States of America which are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services.

(xii) Commercial paper, other than that issued by bank holding companies, rated at the date of investment at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services.

(xiii) Written repurchase contracts, reverse repurchase contracts or securities lending agreements (collateralized by cash or securities) with any securities dealer

that is registered as a dealer under the Securities Exchange Act of 1934, as amended, and is monitored by, reports to and is recognized as a primary dealer by the Federal Reserve Bank of New York, having a net capital of at least \$200,000,000, for obligations of, or unconditionally guaranteed as to the payment of principal and interest by, the United States of America or obligations of, or unconditionally guaranteed as to the payment of principal and interest by, any Bank for Cooperatives, any Federal Intermediate Credit Bank, any Federal Home Loan Bank, the Export-Import Bank of the United States, any Federal Land Bank, the Farmers Home Administration, the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Financing Bank, Federal Home Loan Mortgage Corporation or any other agency or instrumentality of, or corporation wholly owned by, the United States of America, provided (a) that at the time of entering into any such contract or agreement (a) the market value as determined by such primary dealer (the "Market Value") of the obligations subject to any such repurchase contract is at least equal to the purchase price specified in such contract, (b) the purchase price specified in any such reverse repurchase contract is at least equal to the Market Value of the obligations subject to such contract, or (c) the Market Value of the collateral for any such securities lending agreement is at least equal to the Market Value of the securities lent, and (b) such obligations or collateral are held by the Trustee under the Indenture or by a depository satisfactory to the Trustee in such manner as may be required to provide a perfected security interest in such obligations or collateral for the benefit of the Commission.

(xiv) Shares of an investment company organized under the Investment Company Act of 1940, as amended, which either (a) is rated at least AAA by Fitch, Aaa by Moody's Investors Service or AAA by Standard & Poor's Ratings Services or (b) invests its assets exclusively in obligations of the type described in clause (i) of this definition, provided that the average maturity of such obligations shall not exceed 90 days.

(xv) Any agreement for an investment of money with a Qualified Institution (an "Investment Agreement"). All such investments (or the debt of the Qualified Institution with respect to any Investment Agreement) must be rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services, at the time such Investment Agreement is entered into. For purposes of this clause (xv), "Qualified Institution" means a bank, trust company, national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, federal or state branch of a foreign bank pursuant to the International Banking Act of 1978, as amended, a savings and loan association, an insurance company or association or any other entity, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by such institution, are rated at least

A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services.

In lieu of the investment of moneys in obligations described in the first paragraph of this clause (xv), moneys held under the Indenture may, to the extent permitted by law, be invested in interest-bearing time deposits or certificates of deposit which are: (a) issued by banks, trust companies, savings banks and savings and loan associations whose debt obligations are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services, or, with respect to certificates of deposit maturing in less than one year, whose short-term debt obligations are rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services; or (b) fully insured by the Federal Deposit Insurance Corporation.

(xvi) Any obligations rated at least A+ by Fitch, A-1 by Moody's Investors Service or A+ by Standard & Poor's Ratings Services.

"Moody's Investors Service" means Moody's Investors Service, Inc., and its successors and assigns, provided that in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Commission may from time to time designate.

"Municipal Bond Insurance Policy" and "Policy" mean the municipal bond new issue insurance policy issued by Ambac Assurance and insuring the payment when due of the principal of and interest on the Insured Bonds as provided therein.

"NRMSIR" means a nationally recognized municipal securities information repository, recognized as such by the SEC.

"Net Revenues" for any period for each Facility shall mean the Gross Revenues related to such Facility during such period less expenses of operation, maintenance and repair for such Facility or any portion thereof required to be paid by the Commission pursuant to such Facility's respective Use and Occupancy Agreement or otherwise during such period, all as calculated in accordance with generally accepted accounting principles and the Indenture.

"1995A Bonds" means the Commission's Correctional Facilities Program Revenue Bonds, Series 1995A, issued under the Indenture.

"1995B Bonds" means the Commission's Correctional Facilities Program Revenue Bonds, Series 1995B, issued under the Indenture.

"1998 Bonds" means the Commission's Facilities Revenue Refunding Bonds, Series 1998A, issued under the Indenture.

"1999 Bonds" means the Commission's Facility Revenue Bonds, Series 1999A (Miami Correctional Facility Phase I), issued under the Indenture.

"Original Use and Occupancy Agreement No. 1" means the Use and Occupancy Agreement between the Commission, as lessor, and the Department of Administration, as lessee, dated as of November 1, 1991, with respect to the use and occupancy by the State and its agencies and departments of Facility No. 1 or any portion thereof.

"Paying Agent" means Bank One Trust Company, NA (as successor by merger to NBD Bank, N.A.), a national banking association, as initial paying agent for the 1999 Bonds and any paying agent appointed for any Series of Bonds, and any successors or assigns hereafter appointed in the manner provided under the Indenture.

"Pledged Funds" means (i) for a Facility and all related Series of Bonds, the Construction Fund, the Debt Service Fund, any debt service reserve, the Replacement Reserve Fund and all Accounts and Subaccounts therein created for such Facility; and (ii) for all Facilities and all Series of Bonds, the General Fund and all Accounts and Subaccounts therein.

"Principal Installment" means, as of any date of calculation and with respect to any series of Bonds, so long as any Bonds of such series are outstanding, (a) the principal amount of Bonds of such series including the principal amount of any Put Bonds tendered for payment and purchased in lieu of redemption prior to the redemption date thereof due (or so tendered for payment and not purchased in lieu of redemption) on a certain future date for which no sinking fund installments have been established, or (b) the unsatisfied balance (determined as provided in the Indenture) of any sinking fund installments due on a certain future date for Bonds of such series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of Bonds of such series on such future date in a principal amount equal to the unsatisfied balance of such sinking fund installments, or (c) if such future dates coincide as to different Bonds of such series, the sum of such principal amount of Bonds of such series and of such unsatisfied balance of sinking fund installments due on such future date plus such applicable redemption premiums, if any.

"Rebate Memorandum" means the Memorandum on Compliance with Rebate obligations of the Code delivered in connection with the issuance of each Series of Bonds, as amended and supplemented.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the calendar month next preceding such Interest Payment Date.

"Refunding Bonds" means all Bonds, of one or more series, issued, authenticated and delivered pursuant to the Indenture to refund any series or portion of series of any Bonds outstanding under the Indenture or portions of such Bonds.

"Reimbursement Obligation" means any obligation of the Commission to reimburse the provider of any Credit Facility or Reserve Fund Credit Facility for a series of Bonds for any payment made by such provider thereunder pursuant to, or any other obligation of the Commission to repay any amounts (including, but not limited to, fees or additional interest) to such provider pursuant to, any reimbursement agreement.

"Rule" means SEC Rule 15c2-12, as amended.

"SEC" means the Securities and Exchange Commission.

"Standard & Poor's Ratings Services" means Standard & Poor's Ratings Services and its successors and assigns, provided that, in the event that the foregoing is dissolved or liquidated or the Commission determines that such entity no longer performs the function of a securities rating agency, such other nationally recognized securities rating agency as the Commission may from time to time designate.

"State" means the State of Indiana.

"Subaccounts" means, as the case may be, each or all the Subaccounts created under the Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture adopted by the Commission.

"Tax-Exempt Bonds" means any Bonds which on the date of original issuance and delivery were the subject of an opinion of nationally recognized bond counsel that the interest thereon was excludable from gross income for federal income tax purposes under the Code.

"Trust Estate" means for each Facility and all related Series of Bonds (a) the proceeds of the sale of all such Series of Bonds; (b) the Net Revenues related to such Facility; and (c) the Pledged Funds, including the investments, if any, thereof; and the same are pledged and assigned under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

"Trustee" means Bank One Trust Company, NA (successor by merger to NBD Bank, N.A.), a national banking association, or any successor trustee under the Indenture.

"Undertaking" means the Continuing Disclosure Undertaking Agreement between the Commission and the Counterparty dated the date of delivery of the 1999 Bonds, including any amendments or supplements thereto.

"Uninsured 1999 Bonds" means the following 1999 Bonds:

<u>July 1</u>	<u>CUSIP</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2000	455066BL3	\$2,765,000	4.50%
2001	455066BK5	2,710,000	4.75%
2002	455066CS7	2,755,000	4.25%

"Use and Occupancy Agreement" means Use and Occupancy Agreement No. 1, Use and Occupancy Agreement No. 2, Use and Occupancy Agreement No. 3 or any Additional Use and Occupancy Agreement, including any amendments or supplements thereto or renewals thereof.

"Use and Occupancy Agreement No. 1" means the Original Use and Occupancy Agreement No. 1, as supplemented by the First Supplemental Use and Occupancy Agreement.

"Use and Occupancy Agreement No. 2" means the Use and Occupancy Agreement No. 2 by and between the Commission, as lessor, and the Department of Administration, as lessee, dated as of September 15, 1995, with respect to the use and occupancy by the State and its agencies and departments of Facility No. 2 or any portion thereof.

"Use and Occupancy Agreement No. 3" means the Use and Occupancy Agreement, by and between the Commission, as lessor, and the Department of Administration, as lessee, dated as of June 15, 1999, with respect to the use and occupancy by the State and its agencies and departments of Facility No. 3 or any portion thereof.

FORM OF PROPOSED OPINION OF BOND COUNSEL

July __, 1999

Indiana State Office Building Commission
Indianapolis, Indiana

Re: Indiana State Office Building Commission
Facilities Revenue Bonds, Series 1999A
(Miami Correctional Facility - Phase I)
Total Issue \$ _____

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana State Office Building Commission (the "Commission") in connection with the issuance by the Commission of its \$ _____ aggregate principal amount of Indiana State Office Building Commission Facilities Revenue Bonds, Series 1999A (Miami Correctional Facility - Phase I) (the "Bonds"), under and pursuant to the Amended and Restated Trust Indenture dated as of January 1, 1998, which amended and restated the Trust Indenture dated as of November 1, 1991, both as heretofore supplemented and amended, and the Series 1999A Supplemental Trust Indenture dated as of June 15, 1999 (collectively, the "Indenture"), between the Commission and Bank One Trust Company, NA (successor by merger to NBD Bank, N.A.), as trustee (the "Trustee").

We have examined the law and a certified transcript of proceedings of the Commission relating to the authorization, issuance and sale of the Bonds; the authorization and execution of the Use and Occupancy Agreement dated as of June 15, 1999 (the "Use and Occupancy Agreement"), between the Commission and the Department of Administration (the "Department") of the State of Indiana (the "State"); and the authorization and execution of the Indenture; and such other papers as we deem necessary to render this opinion. We have also examined an opinion of the Attorney General of the State. We have relied upon the certified transcript of proceedings and certificates of public officials, including the tax covenants and representations of the Commission and the Department ("Tax Covenants"), and we have not undertaken to verify any facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, as follows:

1. The Commission is a public body corporate and politic, validly existing under Indiana Code 4-13.5 ("Act"), with full power and authority to execute and deliver the Indenture and the Use and Occupancy Agreement and to issue and sell the Bonds.

2. The Bonds have been duly authorized, executed, issued and delivered by the Commission and constitute legal, valid and binding obligations of the Commission, enforceable in accordance with their terms. The principal of and interest on and premium, if any, on the Bonds are payable solely from and secured exclusively by a pledge of the Trust Estate (as defined in the Indenture). The Bonds do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

3. The Indenture has been duly authorized, executed and delivered by the Commission and constitutes the legal, valid and binding obligation of the Commission, enforceable in accordance with its terms. The Indenture creates the valid pledge and assignment which it purports to create of the Trust Estate (as defined in the Indenture).

4. The Use and Occupancy Agreement has been duly authorized, executed and delivered by the Commission and constitutes the legal, valid and binding obligation of the Commission, enforceable in accordance with its terms. We note, however, that the Department is not obligated under the Use and Occupancy Agreement to continue to pay for the use and occupancy of Facility No. 3, but is instead required to vacate Facility No. 3 (as defined in the Indenture), if it is shown that the terms and conditions of the use and occupancy and the amount to be paid for the use and occupancy are unjust and unreasonable, as provided in the Act, and the Department is required to vacate Facility No. 3 if funds have not been appropriated or are not available to pay any sum agreed to be paid for use and occupancy when due, as provided in the Act.

5. Under statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

6. Under the federal statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is excluded from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned upon continuing compliance by the Commission and the Department with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to their date of issuance.

Indiana State Office Building Commission

July ___, 1999

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It is to be understood that the rights of the owners of the Bonds and the Trustee, and the enforceability thereof and of the Indenture and the Use and Occupancy Agreement, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that the enforcement of the Bonds, the Indenture and the Use and Occupancy Agreement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be further understood that the rights of the owners of the Bonds and the Trustee, and the enforceability thereof and of the Indenture and the Use and Occupancy Agreement, may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

Ambac

Municipal Bond Insurance Policy

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

APPENDIX - E

Issuer:

Policy Number:

Bonds:

Premium:

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

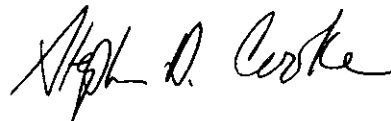
As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer
